







**INDIAN JOURNAL  
OF  
ECONOMICS**

**VOLUME IX**

**1928-29**

**ALLAHABAD  
PUBLISHED BY THE DEPARTMENT OF ECONOMICS  
AND COMMERCE, UNIVERSITY OF ALLAHABAD**

**1929**

Printed by K. Mitra, at the  
Indian Press, Ltd.,  
Allahabad.

**INDIAN**  
**JOURNAL OF ECONOMICS**



# INDIAN JOURNAL OF ECONOMICS

ORGAN OF THE INDIAN ECONOMIC  
ASSOCIATION

---

## Editorial Board

R. K. MUKERJI

V. G. KALE

G. F. SHIRRAS

C. D. THOMPSON

S. K. RUDRA, Managing Editor

---

## VOLUME IX

---

### Original Articles

	Page.
1. The Progress of the Steel Industry (1924—27)—by H. L. Dey . . . . .	1
2. Agricultural Contrasts in the Bengal Delta—by Radha Kamal Mukerjee . . . . .	25
3. Village Debt Settlement—by H. George Franks . . . .	45
4. The Royal Commission on Agriculture in India and the Indian Rural Population—by D. L. Sahasrabudhe . . .	67
5. The Report of the Royal Commission on Agriculture: A Punjab Point of View—by E. B. Wakefield . . . .	73
6. Labour and the Agricultural Commission Report—by S. K. Rudra . . . . .	77
7. Indian Agriculture and Indian Peasants—by G. Findlay Shirras . . . . .	115
8. The Agricultural Commission (1926—28)—by A. C. Sen Gupta . . . . .	129
9. The Report of the Royal Commission on Agriculture in India—by B. G. Bhatnagar . . . . .	139
10. The Concentration of Population in Eastern Bengal—by Radha Kamal Mukerjee . . . . .	144
11. Indian Pastures and Fodder Supply—by L. L. Sundara Ram . . . . .	153

12. The Indian Tinplate Industry: A Study in Comparative Advantages—by H. L. Dey . . . . .	188
13. The Amalgamation of Note Issues—by G. Findlay Shirras . . . . .	209
14. Federal Finance in India—by K. T. Shah . . . . .	263
15. Panchayat Finance—by V. L. D'Souza . . . . .	294
16. Division of Functions and Division of Resources in India—by R. M. Joshi . . . . .	323
17. Some Aspects of Local Finance in British India—by B. G. Bhatnagar . . . . .	334
18. Central and Provincial Financial Relations in India—by S. V. Ayyar . . . . .	345
19. A Revenue System for Indian Central and Provincial Governments—by T. K. Shahani . . . . .	365
20. Federal Finance in India <i>or</i> a Plea for the Rationalisation of the 'Meston Award'—by D. G. Karve . . . . .	384
21. The Economics of Grants-in-aid—by V. G. Ramakrishna Ayyar . . . . .	404
22. Fiscal Relations between the Indian States and the Government of India—by B. Tirumalachar . . . . .	413
23. Prohibition and Prohibition-Finance in Bombay Presidency—by S. K. Muranjan . . . . .	441
24. The Reform of Indian Land Tenure—by Radhakamal Mukerjee . . . . .	466
25. The System of Land Tenure in some Districts of South Behar—by Gyan Chand . . . . .	483
26. Land Tenure in Kumaon—by D. Pant . . . . .	499
27. Transfer of Occupancy Rights in North Behar—by B. B. Mukerjee . . . . .	507
28. Marketing of Jute in Calcutta—by H. Sinha . . . . .	513
29. Some Observations on Marketing in Northern Gujarat and Kathiawad and at Bombay—by K. H. Kamdar . . . . .	548
30. Marketing of Agricultural Produce and Government Aid—by S. Kesava Iyengar . . . . .	563
31. Marketing—by C. Gopal Menon . . . . .	577
32. Co-operative Marketing—by Bhupati B. Mukerjee . . . . .	586
33. Address of Welcome—by K. Chandy . . . . .	595
34. Speech by H. H. the Yuvraj of Mysore . . . . .	600
35. Presidential Address—by V. G. Kale . . . . .	605
36. Indian Labour Organisation and Forced Labour—by P. P. Pillai . . . . .	653

37.	Business Forecasting—by K. B. Madhava . . . . .	663
38.	Co-operation in the Madras Presidency—by A. J. Saunders	678
39.	Land Rights in Bengal — by J. C. Ghosh . . . . .	692
40.	Export Duties in Indian Empire—by E. H. Solomon . . .	699
41.	Necessaries, Comforts and Luxuries—by J. K. Mehta . .	716

---



## REVIEWS

1. Banerjee, S. N., and Hoyland, J. S.—The Empire of the Great Mogol . . . . .	26
2. Ben, E. J. P., Sir—The Return of Laissez Faire . . . . .	730
3. Bhatnagar, B. G.—The Co-operative Organisation in British India . . . . .	735
4. Beri, S. G., and Jathar, G. B.—Indian Economics, Vol. I. . . . .	740
5. Budget Note for 1338 Fasli of H. H. The Nizam's Government . . . . .	751
6. Claphan, J. H.—An Economic History of Modern Britain . . . . .	109
7. Chablani, P. L.—Some Aspects of the Indian Currency Problem . . . . .	113
8. Catchings, W.—The Road to Plenty . . . . .	253
9. Commission and After, The— . . . . .	746
10. Collins, B. A.—Behar and Orissa in 1925-26 . . . . .	745
11. Elkin, W. A., and Kish, C. H.—Central Banks . . . . .	728
12. Economic Survey of Gaggar Bhana, An-- . . . . .	748
13. Foster, W. T.—The Road to Plenty . . . . .	251
14. Hoyland, J. S., and Banerjee, S. N.—The Empire of the Great Mogol . . . . .	261
15. Hall, D. G. F.—Early English Intercourse with Burma . . . . .	732
16. Jathar, G. B., and Beri, S. G.—Indian Economics . . . . .	740
17. Keynes, J. M.—The Economic Consequences of Mr. Churchill . . . . .	109
18. Kellock, J.—Mahadev Govind Ranade . . . . .	112
19. Kaji, H. L.—Primer of Co-operation . . . . .	225
20. Mohammad Habib—Hazrat Amir Khusru of Delhi . . . . .	750
21. Muranjan, S. K., and Vakil, C. N.—Currency and Prices in India . . . . .	737
22. Pancholy, K. S.—	
(i) Short Notes of Land Revenue Administration and some Connected Subjects . . . . .	259
(ii) A Brief Introduction of Public Finance . . . . .	732
23. Report of the Unemployment Committee . . . . .	256
24. Report of the Unemployment Enquiry Committee, Travancore . . . . .	256

25.	Report of the Controller of the Currency—1927-28	745
26.	Administration Report of the Idar State—1926-27	748
27.	Sastri, K. R. R.—South Indian Gilds.	112
28.	Sadashiva Prasad—Co-operative Credit in Jamui Sub-Division	258
29.	Treviskiș, H. K.—The Land of the Five Rivers	259
30.	Vakil, C. N., and Muranjan, S. K.—Currency and Prices in India	737
31.	Venkatarangaya—The Beginnings of Local Taxation in the Madras Presidency	739

## MISCELLANEOUS

Honorary Secretary's and Treasurer's Report	650
Local Secretary's Report	629
Minutes of the Annual General Meeting of the Indian Economics Association	645
Notes	84, 220
Statement of Accounts of the Association	651
Statement of Accounts of the Indian Journal of Economics	652

---



# Indian Journal of Economics

---

---

VOL. IX	}	JULY 1928	}	PART I
---------	---	-----------	---	--------

---

---

## THE PROGRESS OF THE STEEL INDUSTRY, 1924—27 : HOW FAR THE GROWTH WAS DUE TO PROTECTION

BY

H. L. DEY,

*Lecturer, Lucknow University.*

The Steel Industry (Protection) Act of 1924 was enacted for the brief period of less than 3 years in view of the abnormal and fluctuating conditions of the prices, the exchanges and costs of production. By the middle of 1926, all the different parts of the new plant of the Tata Iron and Steel Company, Ltd., had been brought under operation, and the firm was approaching the full anticipated output, which had been taken as the basis of the Act of 1924. Moreover, the United Kingdom as well as several other countries in Europe had returned to the gold standard and some sort of stability of prices. Therefore, the latter part of the year 1926 offered an eminently suitable opportunity for ascertaining the comparative costs of the steel industry and making forecasts regarding its future,

The Act of 1924 lasted from the middle of June, 1924, to the end of March, 1927. Therefore the effective period of protection was only 2 years and 9½ months, which must be presumably regarded as too short a period to show the stimulating effect, if any, of protection on the growth of the industry. Moreover, it was just before or during this period that many important and difficult parts of the new plant were put into running order.<sup>1</sup> Furthermore, it must be remembered that the period was one of great depression in industry and commerce, the steel industry having been one of the worst sufferers from it. In the United Kingdom, many steel producers had to cut their profits to the bone and sometimes sell even below the cost of production. Even in the United States, where a high rate of profit was the rule, many steel producers had to be satisfied with a nominal profit. In spite of a record output in 1925-26, there were 13 firms that could earn no dividends at all, while the average rate of profit for 27 firms was only 4·51 p.c.<sup>2</sup> It was, therefore, a period, when the steel trade throughout the world was faced with the problem of somehow maintaining a bare existence. And besides all these discouraging factors, the Indian Steel Industry was handicapped in competition by the continual and precipitous depreciation of the Belgian and French exchanges, and the appreciation of the rupee-sterling exchange by 12½ p.c. from 1s. 4d. to 1s. 6d. In spite of all these serious disadvantages arising out of external factors, and in the face of admittedly great initial difficulties that usually retard the growth of a highly complicated industry in a country devoid of what may be called an industrial environment and atmosphere, the Indian Steel Industry made considerable progress during this brief period of protection, and in certain respects, viz., in the matter of works costs, the results were actually better than the anticipations formed in 1923-24. The following table shows the improvements in costs of production in various

<sup>1</sup> *Vide* Minutes of Evidence, Statutory Enquiry (1926), vol. 2, p. 63.

<sup>2</sup> *Vide* Iron and Coal Trades Review, 11th June, 1926.

departments as compared to the estimates of costs on full output formed in 1923-24<sup>3</sup> :—

	WORKS COSTS PER TON.			
	Cost in 1923-24.	Estimated cost for 1926-27 as given in 1923-24.	Actual, 1925-26.	Actual, August, 1926.
	Rs. a.	Rs. a.	Rs. a.	Rs. a.
Coke ... ..	15 1'9	12 4 53	11 7'6	...
Pig iron ... ..	36 4'8	30 15'2	28 7'68	26 7'52
Steel ingots, open hearth ...	68 10'24	60 14'0	55 8'32	51 7'04
Steel ingots, duplex ...	82 1'28	57 1'8	58 13'44	51 2'08
Old blooming mills product ..	85 12'32	72 6'2	73 3'84	70 8'48
New " " " ...	93 15'36	68 12'9	68 5'76	60 12'48
Old 28" mill product ...	120 14'88	100 14'9	112 15'84	108 12'48
New " " " ...	...	93 11'0	96 0'32	79 9'44
24" and 18" mills ...	115 13'44	80 13'0	77 12'16	71 0'64
Old bar mill product ...	132 8'80	125 1'3	125 3'04	125 6'4
New " " " ...	134 1'92	106 11'3	104 9'44	98 12'96
Plate mill ... ..	142 2'08	120 8'6	124 5'8	103 5'6
Sheet mill ... ..	203 14'40	149 2'8	181 2'56	164 1'92
Galvanized corrugated sheets	357 7'68	194 6'8	314 3'04	262 10'24

From the above table it will be seen that in all the different departments there were heavy reductions in works costs in two

<sup>3</sup> Vide Minutes of Evidence (1926), vol. 2, pp. 73—93, 239—53.

years 1923-24 to 1925-26. Further it will be noted that except in the old blooming mill, old bar and rail mills, and the sheet mill, the reductions in the works costs were much greater than had been anticipated in 1923-24, when the different units of the new plant were being installed. As to the old rolling mills where the results compared unfavourably with the estimates, it has to be pointed out that by 1926 it was evident that they had become obsolete. This was the case with the old blooming mill, bar mill and rail mill. This was admitted by the representatives of the steel company in their evidence before the Tariff Board in 1926. As compared to the corresponding new mills in the new plant, the old mills were costing over Rs. 20 lakhs a year more in the works costs alone. Accordingly, it was proposed in 1926 to fit up the new plant with certain auxiliary equipment which would increase the capacity of the new mills and help to dispense with production in the old mills. With regard to the plate mills, we are told that the result would have been much more favourable if the mill could have been worked to its full capacity. The full capacity of the mill is given as 100,000 tons a year, the estimate of output given in 1923-24 was 48,000 tons, while the actual production of 1925-26 was only 20,871 tons, or less than half the estimated output given in 1923-24, and only 20 p.c. of the full capacity of the plant. This great difference between the full capacity and actual output is due to the fact that the market for plates in India turned out to be much smaller than had been anticipated. The full output can find a market only when there has been a considerable development of the wagon-building and ship-building industries in India. The costs of black sheets and galvanized sheets were higher than the estimates because the labour costs proved to be greater. For, in black and galvanized sheets as in tinplate, the element of manual labour and skill is proportionally higher than in other branches of steel industry.

Similarly, the growth of output in the different branches, although lagging behind the estimates that had been submitted to the Board in 1923-24, was appreciable in itself, as will appear from

the following table<sup>4</sup> :—

	OUTPUT IN TONS.		
	Output in 1923-24.	Estimated output for 1926-27 as given in 1923-24.	Actual output, 1925-26
Coke ... ..	612,171	778,200	694,070
Pig iron ... ..	471,651	610,200	573,196
Steel ingots ... ..	235,038	370,000	470,537
Old blooming mill ... ..	181,540	88,000	31,825
New do. do. ... ..	23,700	380,000	320,990
Old 28" mill ... ..	92,121	60,000	45,253
New 28" mill ... ..	...	175,000	94,235
24" and 28" mill ... ..	6,688	154,000	150,477
Old bar mill ... ..	41,206	18,000	28,019
New merchant mill ... ..	...	43,900	60,163
Plate mill ... ..	22,267	48,000	20,871
Sheet mill ... ..	...	36,000	28,652
Total finished steel ... ..	162,282	422,000	319,957

From the table given above, it will be seen, by comparing columns 1 and 3, that except in the departments of old blooming mill, old 28" mill, old bar mill and plate mill, there was remarkable growth of output within two years, 1923-24 to 1925-26. The decrease in the old rolling mills is due, as we have already noted, to their having become obsolete: their works costs were so much higher than in the new mills that they were operated much below their full capacity. The fall of outturn in the plate mill is due, on the other hand, to the absence of a sufficient market.

The estimates of output and works costs given in 1923-24 were estimates for the maximum outturn when all the different parts

<sup>4</sup> *Ibid.*, vol. 2, p. 63.



of the plant would be working at full capacity. But in actual effect, the different parts of the plant could not be operated to their full capacity, due to internal as well as external causes. In the first place, it so turned out in the course of experience that the parts of the plant were ill-adjusted to one another. Thus, for example, the capacity of the coke ovens to produce coke was below the capacity of the blast furnaces to produce pig iron. On the other hand, the capacity of the steel furnaces proved to be too inadequate, either to absorb the whole of the output of the blast furnaces or to supply steel ingots to the full capacity of the rolling mills. In other words, the capacity for producing pig iron and rolling different classes of finished steel was proportionally excessive, while the capacity for producing coke and steel ingots was defective. The result was that either outside coke was bought or one blast furnace was kept idle. Moreover, due to the shutting down in 1925-26 of the Evans Copper Ovens from which the by-products could not be recovered, and which therefore showed comparatively higher works costs, the disparity between the coking capacity and pig iron capacity became wider, so that even with one blast furnace left out, the firm had to arrange for the purchase of outside coke. Secondly, due to certain improvements introduced, e.g., change in the proportions of limestone and dolomite as fluxes, blowing more wind into the furnaces, the full capacity of the five blast furnaces turned out to be much higher than the original anticipations. Although the estimate was only 610,200 tons, experience and improved practice showed that the furnaces had a maximum capacity of 800,000 tons. As a matter of fact, it was found that the five blast furnaces were capable of producing pig iron for as much as 780,000 tons of steel ingots and 560,000 tons of finished steel, and still leave a surplus of 60,000 tons for reserve and sale in the pig-iron market. And, lastly, it was found that many of the rolling mills could not be worked to their full capacity because of—partly shortage of steel ingots, partly, lack of power, partly insufficient markets, and partly, as in the case of the old mills, comparatively

high costs of production. Thus, for example, in the case of the new 28" rail mill, it was found that its output of rails was above the demand of the market for rails, while the old 28" mill proved entirely obsolete and uneconomical on account of high works costs. Accordingly, in 1926 a development programme estimated to cost Rs. 2.68 crores was prepared in order, firstly, to round off the plant, and, secondly, to increase output to the technically possible maximum, by fitting up the plant with auxiliary equipment here and there. This included the addition of a fourth battery of Wilputte Coke Ovens, a third duplex furnace, and enlargement of the 4 old open-hearth furnaces from 50-ton to 90-ton capacity. It also provided for equipping the new 28" mill with a roughing mill and finishing department, so that this could be turned to both rail-making and structural-making according to market, and thus enable the old 28" mill, become obsolete, to be shut down. There were also to be new auxiliary equipment for economy of fuel and additional power for the enlarged capacity of the plant. This development programme was to be completed in 6 years ending 1931-32 and was designed to give the following output in the different parts of the plant in 1933-34<sup>5</sup> :—

					Output in 1925-26.	Expected output in 1933-34
					Tons.	Tons.
Coke	...	...	..	...	694,070	900,000
Pig iron	...	...	...	...	573,196	800,000
Ferro-manganese	...	...	...	..	7,302	10,000
Steel ingots	...	...	...	...	470,557	780,000
Blooms, slabs, billets	...	...	...	...	408,815	665,000
New 28" mill	...	...	...	...	94,235	260,000
Old 28" mill	...	...	...	...	44,734	...
Plate mill	...	...	...	...	20,871	25,000
(New) Merchant bar mill	...	...	...	...	60,163	120,000
Old bar mills	...	...	...	...	28,019	25,000
Black sheets	...	...	...	...	16,582	} 55,000
Galvanized sheets	...	...	...	...	12,681	
Tin bars	...	...	...	...	40,380	
Steel sleepers	...	...	...	...	1,773	25,000
Blooms and billets for sale	...	...	...	...	519	...
Total finished steel					319,957	560,000

<sup>5</sup> *Ibid.*, vol. 2, pp. 29 to 34, 64; vol. 3, pp. 26—32, 315-316.

Now, to return to the improvements as shown in the reduced works costs. As we have already noticed, the growth of output in many departments lagged behind the estimates. On the other hand, the reductions in works costs were greater than the anticipations. Hence, in order to find out exactly at what points greater economy and efficiency were attained, it is necessary to make a comparative study of the different items of the works costs during 1923-24 to 1925-26:—

### PIG IRON

				1923-24	1924-25	1925-26
Production in tons ...				442,571	552,691	573,196
				Rs. a.	Rs. a.	Rs. a.
Ores and scrap	...	...	...	5 13'28	6 1'44	6 2'08
Coke	...	...	...	19 14'40	17 11'84	14 4'00
Flux	...	...	...	3 8'64	3 0'48	2 14'88
				29 4'32	26 13'76	23 4'96
Labour	...	...	...	2 8'00	1 15'84	1 15'04
Tools and supplies	...	...	...	1 2'72	0 14'88	0 12'48
Refractories	...	...	...	0 2'40	0 2'08	0 1'60
Steam	...	...	...	1 8'00	1 9'60	1 10'88
Service expenses	...	...	...	1 14'40	1 10'08	1 8'80
Relining fund	...	...	...	0 12'00	0 10'40	0 5'90
				37 3'84	33 12'64	29 11'68
Gas credit	...	...	...	0 15'36	1 0'96	1 4'00
				36 4'48	33 11'68	28 7'68
Net cost per ton				36 4'48	33 11'68	28 7'68

It will be seen that the cost per ton was reduced by about Rs. 8. Reduction under coke accounted for over Rs. 5½. This was due to the fall in the price of coke per ton by some Rs. 4½, and in consumption of coke per ton of pig iron by some 260 lb. About As. 8 was accounted for by labour, and As. 9 by tools, supplies and refractories. A reduction of As. 5½ was due to service expenses and As. 6 to relining fund, both of which reductions were due to increased output. Increased credit for by-product gas of the blast furnace, which is available for use in the rolling mills, and which accounts for considerable economies derived by mixed works in western countries, contributed to a reduction of about As. 5 a ton.

If we analyse further, we shall find that the reduction in the price of coke accounted for Rs. 5, of ores, scrap and flux As. 5, and imported tools and supplies As. 8. All these items of reductions were due to the very considerable fall in external and internal prices in 1924-25 and 1925-26, and also the appreciation of the rupee-sterling exchange. Secondly, reductions under service expenses and relining fund accounted for As. 11½, out of which a good part must have been due to the increase in the tonnage of output. These items total up to Rs. 6-8. Therefore, better practice in the plant and improved efficiency accounted for a reduction of only Rs. 1-8 a ton. But, due to rise in wages during the period by over 12 p.c., the improved efficiency of labour was not completely reflected in the costs. The annual tonnage per head rose from 145 to 205. Had the wages remained the same, the 1925-26 costs would have declined by a further As. 8. Therefore, the net economies attributed to better practice and improved efficiency may be put at Rs. 2 a ton, or 5.5 p.c. out of a total reduction of 21 p.c. on the costs of 1923-24.

## DUPLEX PLANT INGOTS

	1923-24	1924-25	1925-26
	Rs. a.	Rs. a.	Rs. a.
Net metal cost ... ..	41 15'01	44 4'48	37 13 92
Feeding materials .. ..	5 9'60	4 14 08	4 3'36
Labour ... ..	7 3 84	3 12'32	2 12'00
Stores ... ..	3 13 28	1 11 84	1 2 72
Refractories ... ..	1 12 32	1 7 84	1 5 28
Ingots, moulds and stores .. ..	1 8 00	1 13 76	2 0 00
Relining fund ... ..	7 8 00	6 0 32	4 8'00
Gas-producers ... ..	9 4 64	4 9 44	2 13 96
Service expenses ... ..	3 6 56	2 2 88	2 3 20
Average cost per ton ... ..	82 12 28	70 12 96	58 13 44

It will be seen that the total reductions amounted to Rs. 23-4. Out of this, over Rs. 4 was due to net metal cost. This was the blown-metal prepared in the Bessemer Converter, and the works costs of blown-metal were reduced by over Rs. 12 per ton on account of cheaper pig iron, improved labour, etc. Of the remaining Rs. 19-4, which was the economy in the conversion of the duplex plant ingots, about Rs. 4-8 was to be credited to labour, Rs. 6-8 to lower cost of gas, Rs. 3 to relining fund. These savings were in a great measure directly attributable to increased efficiency of labour, gas plant, and furnace practice. These amounted to Rs. 14. On the other hand, lower price of materials accounted for a reduction of over Rs. 3 under feeding materials, stores, refractories, etc. It is, therefore, clear that out of a net reduction of Rs. 19-4 a ton, Rs. 14 or 74 p.c. was due almost entirely to increased efficiency in practice. It is also worthy of note that although the efficiency of labour in this department improved by no less than 190 p.c. by increasing the per head

per annum tonnage from 52 to 140, it was neutralised in the labour costs to a certain extent, due to rise of wages by some 53 p.c. from Rs. 105 to Rs. 616.

## 28' NEW RAIL MILL

					1924-25	1925-26
					Rs. a.	Rs. a.
Net metal cost	...	...	...	...	98 14'40	80 9'28
Labour	...	...	...	...	4 12'64	6 1'76
Stores, tools and supplies	...	...	...	...	3 7'04	2 2'56
Steam	...	...	...	...	0 1'76	0 2'56
Gas-producers	...	...	...	...	...	0 3'68
Rolls	...	...	...	...	2 4'00	2 4'00
Service cost	...	...	...	...	3 12'00	4 8'48
Average cost per ton					113 3'84	96 0'37

At the very outset, it is necessary to point out that this mill was set up only on 12th May, 1924, so that the cost sheets given above represent the results of less than two complete years' working. Hence, the comparative results should be accepted with a good deal of caution. Now, from the table it appears that the total works costs were reduced by just over Rs. 17. But, mainly as a result of lower costs of the ingots, the metal cost accounted for a saving of over Rs. 18. Therefore, the net cost of conversion in 1925-26 was higher by Re. 1 than that of 1924-25. Therefore, there was hardly any progress to be noticed in the department.

These few representative costs sheets are sufficient to show in what directions progress has been achieved by the industry in India during the first protective period, 1924—27. It has been found that a good deal of reductions in costs is attributable to

the general fall of prices, both external as well as internal, that took place in the period. This was specially true of coke, imported stores, tools and supplies. Nevertheless, in several departments, and specially in the open hearth and the duplex plant departments producing steel ingots which hold the key to the success of the steel industry as a whole, there has been attained remarkable efficiency in the matter of producer gas, labour, and relining expenses.<sup>6</sup> And it is these items, among others, that represent the technical as well as the human aspects of the problem of industrial success. The two principal difficulties that beset the path of the steel industry in India were the intricate and highly technical nature of the work involved on the one hand, and lack of trained, experienced, and efficient labour on the other. The comparative costs analysed above, however, show that both these difficulties have been to a great extent solved by the industry in India.

Another interesting point that is brought out by these costs sheets is in respect of the rapidity with which modern industrial plants, involving huge capital expenditure, become obsolete, out-of-date, and, therefore, uneconomic and useless. Thus, we find that the costs of rails per ton in 1925-26 were Rs. 112-15-8½a. in the old mill as against Rs. 96-0-32a. in the new mill. This is a difference of about Rs. 16 a ton. The old mill has a capacity of over 93,000 tons a year. Should the old rail mill be worked to its maximum capacity, it would mean an excess expenditure of Rs. 14-88 lakhs a year in works costs alone. Similarly, the costs of bars in 1925-26 were Rs. 125-3-04a. in the old bar mill as against Rs. 104-9-44a. in the new merchant mill. This is a difference of over Rs. 20 per ton. The old mill has a maximum capacity of over 40,000 tons. Should it be operated at full capacity, it would involve an excess expenditure of over Rs. 8 lakhs in works costs alone. These two mills between them would necessitate an additional expenditure of about Rs. 23 lakhs in works costs alone every year, or considerably more than a crore in 5

<sup>6</sup> *Ibid.*, vol. 2, pages 80—109; vol. 3, pp. 8—102.

years. And these had been first operated in 1913-14, and they became obsolete in the course of only 12 or 13 years, that is, by 1925-26. This also demonstrates the utter necessity of providing for a high rate of depreciation in the overhead charges, and the wisdom of insisting upon maintaining this depreciation fund intact before dividends are distributed among the shareholders. It will be recalled that, in 1924, the Tariff Board provided for depreciation at the rate of  $7\frac{1}{2}$  p.c. on machinery, and  $6\frac{1}{4}$  p.c. on the whole plant. The total amount allowed on depreciation account was Rs. 93.75 lakhs. The steel company, however, kept Rs. 61 lakhs in 1924-25, Rs. 60 lakhs in 1925-26, and Rs. 78 lakhs in 1926-27.<sup>7</sup> It is also worth while noting that before the insistence by the Tariff Board on this point in 1924, the steel company had not always kept a sufficient amount for the depreciation fund. Thus, for example, in 1922-23, which was, however, an extremely poor year, the provision for depreciation had amounted to only Rs. 15 lakhs. The practical importance and the wisdom of maintaining a high rate of depreciation in the overhead charges would be apparent from the fact that some portions of the Greater Extensions installed between 1921 and 1925 were financed out of the depreciation fund. Moreover, as we have seen in course of this enquiry, in 1926 the company was able to plan a development programme in order to keep the plant up-to-date and at the highest point of technical efficiency by shutting down some of the obsolete mills and fitting up the plant with some auxiliary equipment, to be financed entirely out of the depreciation fund, the capital cost of the programme being estimated at no less than Rs. 2.64 crores.

In view of this extreme importance of maintaining an adequate depreciation fund so that the works might be kept in a high state of efficiency and plant and equipment quite abreast of modern progress, the Tariff Board wisely suggested that the scheme of protection should include an obligatory provision for the main-

<sup>7</sup> *Vide* Annual Reports of the Tata Iron and Steel Company, Ltd., 1924-25; 1925-26, 1926-27.



tenance of a sufficient depreciation fund. This obligation is indeed necessary as a safeguard against the very probable temptation which the shareholders might sometimes feel to clamour for a high dividend at the expense of the future interests of the industry. It is worthy of note that this suggestion has been voluntarily accepted by the Board of Directors of the Tata Iron and Steel Company, Ltd., which should serve as a wholesome example to the not a few Boards of Directors who are frequently apt to attach more importance to their present popularity among the shareholders than to the permanent welfare of the industry or the firm committed to their care.

No assessment of the growth of a new industry, specially in the transitional stage of a country from agriculture to manufacture, can, however, be complete without getting an idea of the degree of success that has been achieved in the training of labour, in the replacing of imported by indigenous staff and in placing Indians in positions of trust and command. To use the current phraseology of present-day Indian politics, one true test of the measure of self-government attained in industry is the extent of Indianisation in the superior ranks of the services in the industrial sphere. For, as was very clearly put by the representative of the Tata Iron and Steel Company, Ltd., before the Fiscal Commission, "it is impossible to say that the industry in India is established until we have natives of the country who are competent to fill up the highest positions in the works, as in the case of Japan."<sup>8</sup> It is for this reason that the Assembly Members have insisted again and again on the protected industries being statutorily required to give reasonable facilities for the training of Indians.

On account of this demand of the Assembly, a clause was inserted in the Act of 1924 to the effect that the firms manufacturing the bounty-fed articles should give reasonable facilities for the training of Indian apprentices in the processes of manufacture.

<sup>8</sup> *Vide* Minutes of Evidence, Indian Fiscal Commission, vol. 3, p. 990.

It is, therefore, appropriate to discuss at this stage, how far it is desirable and necessary to make statutory and compulsory provision for the training of Indians in the processes of manufacturing in industries, specially in protected industries. For, it is a well-recognised principle of Economics that where the free play of economic forces tends to the realization of the desired end, there should be no interference from outside. We should do well to bear in mind the dictum of the old masters that in the economic sphere of a man's life, no other force is so steady, sure and powerful in its operation as the motive of self-interest or the forces of free competition. In the industrial and commercial world, even more than in the social and political world, there is a remorseless struggle for existence and an unfettered operation of the law of survival of the fittest. Now, the one sole all-powerful weapon in this unceasing heedless fight is productive efficiency, which is measured by costs of production. The lower the costs of production, the greater the competitive efficiency, and, therefore, also the chance of success. Therefore, it may be accepted as an axiom of industrial economics that every firm will freely explore all possible avenues for the reduction of costs of production. It is also evident that where this very vital point is concerned, no extra-economic considerations like racial prejudice or national bias or patriotism will be allowed to weigh with the entrepreneur.

Now, it has been again and again publicly stated by the representatives of important Indian industries that foreign labour is far more expensive than Indian labour, quality for quality. The spokesmen of the steel industry stated before the Tariff Board in 1923 that when an imported expert is replaced by an equally qualified Indian, the latter is usually given two-thirds of the salary of the former. But when we take account of the fact that these imported experts have to be given free passages to and from their homes, salaries while travelling, home allowances and princely bonuses, we may safely put it that the replacement of foreign experts by qualified Indians would save at least 50 p.c.

of the wages bill of the higher staff.<sup>9</sup> Between September, 1924, and June, 1926, the steel company reduced their foreign staff by 68 from 229 to 161, or by about 30 p.c. Of these 68, 42 were replaced by Indians and 26 were net reductions. As a result, the amount of salary paid to the imported hands declined by some Rs. 3·8 lakhs per annum. This, however, does not give an adequate idea of the amount of actual saving to the company. A note was attached to show actual savings by the replacement of foreign staff by Indians in 20 of the more responsible jobs. The Indianisation of the staff in these 20 jobs reduced the amount of salary payable from Rs. 15,406 to Rs. 7,870 per month. This means a saving of Rs. 7,636 a month or Rs. 91,632 a year. This shows a reduction of approximately 50 p.c. in the wages bill. As the above list includes some of the most responsible jobs carrying salaries as high as Rs. 1,250 p.m., we may take this as representative. Now on 1st June, 1926, the salary bill of the covenanted hands amounted to Rs. 1·78 lakhs a month. This would come to Rs. 21·36 lakhs a year. If all these hands were replaced by Indians on approximately 50 p.c. of the salaries paid to the former, as in the above mentioned 20 cases, the total saving in the wages bill will be well above Rs. 10 lakhs. The effect of this one item of saving on an output of 500,000 tons of steel would be to reduce the costs by Rs. 2 a ton. It is a matter of common knowledge among business men, what it means for a manufacturer to be in a position to decrease the costs by Rs. 2 per unit. But even this does not give a complete idea of the saving that could be effected by the policy of replacing foreign by Indian staff. Besides the salary, the covenanted hands are also paid a bonus on the output. In 1925-26, out of a total wages bill for labour amounting to Rs. 146·7 lakhs the amount paid to the covenanted hands in salary and bonus was no less than Rs. 34·20 lakhs or 23 per cent of the whole. The amount of salary

<sup>9</sup> *Ibid.*, p. 989; also Minutes of Evidence, Tariff Board (1924), vol. 1, p. 223; vol. 2, pp. 109—11.

was Rs. 23·73 lakhs and bonus Rs. 10·47 lakhs. If the entire staff were to be Indians, there would be a saving of Rs. 11·87 lakhs in salary (50 per cent reduction) and the whole of the bonus of Rs. 10·47 lakhs, as Indians are given no bonus. The total saving would be Rs. 22·34 lakhs. On an output of 500,000 tons of steel this would mean a reduction of works costs by no less than Rs. 4·5 a ton.<sup>10</sup>

It is on account of the free play of this powerful economic force that the steel company of their own accord have undergone the not inconsiderable expense of running a high grade Metallurgical Institute at Jamshedpur without any persuasion or compulsion from anybody. It was started in 1921. Total admissions during 1921—25 were 114. Of these, 58 are still under training. Of the remaining 56, 6 accepted outside employment, and the remaining 50 were employed by the steel company. Of these again, 25 have resigned or been discharged, and the remaining 25 are serving under contract with the Tata's. Apart from the recruitment of Indians through the institute, there is also recruitment by promotion of ordinary local workers who gradually acquire training, skill and experience at the works. In this way some ordinary coolies have been promoted to positions that carry a salary of Rs. 250 to Rs. 300 a month. Thus it is clear that due to the sheer operation of economic forces, the management is expediting the process of replacement as far as they reasonably can.<sup>11</sup> If the company have had to employ large numbers of foreign experts who are more than twice as costly as equally qualified Indians, that also must be due to the utter needs of the situation. For, both self-interest as well as the sentiment of patriotism would debar them from the employment of imported staff if only they could do so without sacrificing the ultimate welfare of the industry. When we look at the policy of the tinplate company of India, which is virtually controlled by that powerful foreign corporation,

<sup>10</sup> *Vide* Minutes of Evidence, Tariff Board, 1926, vol. 2, pp. 210-11, 224-25; vol. 3, pp. 91—93.

<sup>11</sup> *Ibid.*, vol. 2, pp. 158—63; vol. 3, pp. 91—93.

the Burma Oil Company, Ltd., it would be still more clear to us that the operation of the motive of self-interest by itself is enough to lead to a rapid replacement of imported staff by indigenous staff. Here, extra-economic considerations like race prejudice would have led to a retardation of the policy of replacement. Nevertheless, within 3 years, 1923—26, although the output rose from 9,000 tons to 35,000 tons, the covenanted hands were reduced from 84 to 58, or by some 31 per cent. If the increase in output is considered, this would mean a reduction of 85 per cent from 326 to 58.<sup>12</sup> In this connexion it may also be recalled that so highly an industrialised country as America was in 1890 had to import large numbers of Welshmen for the then newly started tinplate industry of hers.

It is, therefore, clear that in the matter of appointing Indians to positions of trust and command in modern industries, the play of self-interest, the most powerful motive force in the economic activities of man, may be safely trusted to lead to the realization of the desired end, and no outside interference is necessary. Moreover, it must be remembered that legal compulsion may create a feeling of resentment in the minds of the captains of industry and, therefore, the training given under compulsion may often prove to be of small practical value. Lastly, we must also be on our guard lest an over-zealous regard for the satisfaction of a patriotic sentiment should tempt us to unduly accelerate the process of Indianisation and thereby interfere with a steady and solid development of the industry which alone will ensure permanence and stability.

Now, to return to the conditions of ordinary labour. It has been admitted on all hands that the policy with regard to labour, that has been followed at Jamshedpur, is more enlightened from more than one point of view than has been the case in other places. It is the observation of competent persons that the labour conditions all round at Jamshedpur are better than those prevailing in other parts of India. At the very outset it is interesting to

<sup>12</sup> *Ibid.*, vol. 7, p. 18

note that the Tata Iron and Steel Company have from the very beginning followed the policy of an eight-hour day, in this anticipating by many years the steel producers of other countries. Secondly, this has been one of the very few large-scale industrial organisations, which have accepted the sound economic maxim that increase in wages increases efficiency. Its representative, as a matter of fact, publicly stated before the Tariff Board in 1926, that they definitely wanted to raise the wages of the men, and considered it was sound business, for as the standard of comfort rose, the standard of efficiency also would rise with it. They have also wisely recognised from the very beginning that the problem of shortage of steady, stable, permanent, skilled, trained, and experienced labour in Indian industries, which is a paradox of Indian economics, can only be solved by creating a congenial and wholesome environment, which will succeed in attracting outside labour and making it permanent, stable and localised. For this purpose they have out of their own funds spent no less than Rs. 1·35 crores in calling into existence out of an obscure Santal village a most up-to-date industrial city, thoroughly equipped with modern hospitals and dispensaries, sanitary works, lighting, water works, etc. Nor has the management of the company been unmindful of suitable housing accommodation for its employees. It is common knowledge that in many of the large industrial centres of India, e.g., Bombay, the housing conditions of the workers indicate appalling overcrowding and awfully insanitary surroundings, which lead only to degradation and misery. In order to avert this evil and make the environment a positively congenial one, the company have provided some 10,353 houses, which provide accommodation for about 34 per cent of the total employees, both monthly-paid and weekly-paid. Similarly, adequate arrangements have also been made for education and general diffusion of knowledge. Going into details, we find that there is a High English School for boys, a Middle English School for girls, and 14 primary schools run by the company. In addition, there are 6 isolation wards, free treatment of maternity cases, and free medicines. There are

also a health and sanitation department and a veterinary hospital. Similarly, there are also ample facilities provided for recreation in the way of clubs, dramatic association, running trophies and championships, cinemas, etc. And, lastly, co-operation, that most promising item of modern labour welfare, has also found sufficient recognition in the shape of co-operative societies, which save the employees from the clutches of Kabuli money-lenders.<sup>13</sup>

It is only by following this enlightened policy that our steel city, Jamshedpur, has been able to get a permanent labour supply, estimated at some 30,000 workers, who have practically settled down on the works, thus providing a nucleus for the future steel workers of India.

From the foregoing, it would appear that, in spite of unfavourable and impeding factors like depreciating exchanges, fall of foreign prices, and reckless competition during a period of acute depression, the steel industry of India has been able to make appreciable progress, as evidenced by increase of output, improvement in the efficiency of labour, reduction in the number of foreign hands, and considerable reduction in works costs. This evidence of gain in the strength and stability of the industry has been also accompanied by very considerable improvement in the conditions of labour, specially in respect of wages, housing and various amenities of modern life.

But when we turn to the financial aspects of the industry, the picture presents a gloomy appearance. During the 3 years, 1924—27, the articles produced by the industry were protected by fairly high import duties averaging 25 per cent. Besides, between October, 1924, and March, 1927, the industry received a direct subsidy from the State amounting to Rs. 209 lakhs. In spite of this double protection, the company fell in arrears of dividend payments on  $7\frac{1}{2}$  per cent cumulative second preference shares (valued at Rs. 7 crores) to the extent of well over Rs. 75 lakhs. Similarly, during the whole period only  $1\frac{1}{2}$  per cent dividends

<sup>13</sup> *Ibid.*, vol. 2, pp. 262—72; vol. 3, pp. 266—73.

could be paid on the ordinary shares and none whatsoever on the deferred shares. It was only the 6 per cent first preference shares worth Rs. 75 lakhs that could earn full dividends throughout the period. That is to say, during the period of protection, only 7.1 per cent of the capital could earn full dividend, 91.5 per cent a fractional dividend, and 1.4 per cent no dividend whatsoever.

This, therefore, raises the question, whether the measure of protection granted during the period was adequate and effective in promoting the growth of the industry or not. Now, the question may be answered from two points of view. The first would be to find out whether the amount of protection intended under the Act of 1924 was actually received by the company. The Tariff Board in 1924 had intended that the steel industry should realize such an amount of surplus over works costs as would be adequate to meet the necessary overhead charges and leave a margin for profits on capital. The Board itself again calculated in 1926 the difference between the amount intended under the scheme of 1924 and the amount actually received in the 2 years and 9½ months of protection. They concluded that the actual realized surplus was only short of the intended surplus by Rs. 16 lakhs.<sup>14</sup> And furthermore, if the bounty of Rs. 90 lakhs as recommended by way of supplementary protection for the period October, 1925, to March, 1927, had not been reduced to Rs. 60 lakhs by the Government of India, the amount of surplus would have exceeded by Rs. 14 lakhs, the sum intended as surplus under the Act of 1924. From this point of view, therefore, it must be admitted that the actual results realized during this period were equal to the degree of protection originally intended under the Act of 1924. And this must be regarded as perfectly satisfactory, specially in view of the extremely uncertain and unstable conditions of prices, exchanges and costs during this period.

A second point of view from which the question may be considered would be to find out whether the degree of protection actually

<sup>14</sup> *Vide* Report, 1926, pp. 12—16.



realized under the Act of 1924 was effective in promoting the growth of the industry. Here, again, there are two aspects to be considered. On the one hand, it is found that the financial position of the company during the period of protection was much better than it had been in the period immediately preceding the period of protection. In 1922-23, after meeting other necessary charges, the profits of the company amounted to only Rs. 22·31 lakhs, out of which Rs. 15·27 lakhs only could be set aside for depreciation and Rs. 4·5 lakhs could be given away as dividends on first preference shares. In 1923-24, out of the nett profits, Rs. 30 lakhs could be set aside for depreciation, while no dividend could be given even on first preference shares. And had there been no assistance given in 1924—27 by means of protective duties and bounties, the position would have become much worse still on account of the more acute stage of the depression, accentuated by depreciating foreign exchanges. But, due to the intervention of the State by the policy of protection, in 1924-25, 1925-26 and 1926-27, the depreciation fund could be credited with the considerable sums of Rs. 61 lakhs, Rs. 60 lakhs and Rs. 78 lakhs respectively, while full dividends on first preference shares and partial dividends on second preference and ordinary shares could be distributed in the period. The sum of direct subsidy granted to the industry by way of bounty amounted to Rs. 209 lakhs. If this had not been given, the company could not have given any dividends even on first preference shares, and its allocation for depreciation fund would have fallen short of what was actually regarded as necessary by Rs. 106 lakhs. It could have set aside only Rs. 31 lakhs a year for depreciation. The position, therefore, would have been, at least, as critical as in 1922-23 and 1923-24.<sup>15</sup> But due to the protective measures of the period, the

<sup>15</sup> Taking beams, bars and plates as representative of different kinds of steel imported into India, and taking the mean of the average prices of British and Continental steel during 1924—27, the average price of imported steel, duty-free, was Rs. 113 a ton. The additional duties under the Act of 1924 averaged some 15 p.c. (over and above the original revenue duties) or, say, Rs. 17 a ton. During the period the output of protected steel was by import duty 550,000 tons, The

industry emerged out of the acutest stage of the depression more strong and stable than it had been in 1922-23 or 1923-24. Had the protective measures not been adopted in the most critical stage of its history, the industry would, on the admission of the Tata Iron and Steel Company, have ceased to exist. Therefore, the protective measures under the Act of 1924 must at least be credited with having preserved the industry under most critical conditions.

But the aim of protection is not merely to keep an industry in a state of bare existence. Its avowed purpose in all protectionist countries is and has been to accelerate the healthy development of an industry towards ultimate independence. As was stated both by the Fiscal Commission as well as by the Tariff Board, its object is to inspire capital with confidence by ensuring adequate return in the face of great initial risks and uncertainties, so that competition may be invited and vigour and efficiency stimulated. The protective measures of 1924—27 did not in effect ensure this adequate return on capital, and it failed to inspire would-be investors of capital with sufficient confidence to enter the field of this particular industry. Thus the stimulating effect of competition in promoting efficiency and reducing costs did not take place under the scheme. It may be said that this was a period of abnormal depression in trade and industry, and, therefore, it was not an easy task to ensure normal return on capital. As a matter of fact, such an explanation was offered by the Tariff Board in 1926, when it stated that many firms even in old industrialised countries like England and America had either failed to derive any return, or secured only an inadequate return on their invested capital. Accordingly, therefore, it was said, there was a much smaller possibility of sufficient return on capital in a country like India. But the critics may reply that if this was an abnormal period, then the remedy applied also should have been abnormal.

total additional duties on this would amount to Rs. 93.5 lakhs. If this as well as the bounty had not been given, the company could not have made any allocation for depreciation fund, and the position would have been, if anything, much worse than in 1922-23 and 1923-24.

A costly measure like protection, if at all undertaken, must be adequately and effectively applied, so that the result may be assured and the period shortened. For, as has been rightly observed, inadequate protection is worse than useless. In this view of the facts of the case, therefore, one might come to the conclusion that the protective measures of 1924—27 achieved only a very limited degree of success.

---

# AGRICULTURAL CONTRASTS IN THE BENGAL DELTA

BY

RADHAKAMAL MUKERJEE,  
*Lucknow University.*

## **Wet Cultivation in the Delta.**

The climate of the Lower Ganges Valley presents a contrast, gradual and not sharp, with that of the upper and middle portions. The temperature is warmer than that of the drier regions of the Upper Ganges Valley in winter, but it is much cooler in summer. In the Middle Ganges Valley we already have passed the prairie region and come to the forested belt, though, of course, the human interference has led to the regression of vegetation to dry types. The country is no longer dry and brown, but moist and green. The grass lands disappear and trees become more and more numerous. In the Lower Ganges Valley vegetation becomes richer and more luxuriant and the abundant rainfall is much more favourable for the wet zone crop, rice. The fertility of soil of the Ganges Delta annually renovated by silt deposit is proverbial. It has been maintained through centuries by nice adjustment of cultivation to physical conditions, and both crops and methods have hardly undergone any changes. In ancient Bengal paddy was cultivated in the same manner as to-day. A nursery was prepared and the seedlings were transplanted, as testified by Kalidas, the poet of Ujjain, who could not but be struck with a farming practice quite unfamiliar to him. Speaking of Bengal, he describes the peasant's wives, who, while protecting the *sali* seedlings as they sat under sugarcane groves, sang the glories of

their husband protectors. The yearly inundation of the rivers and deposit of fertilising silt led to an early rise into civilisation of the delta region. The situation of Egypt as regards its proximity to an early seat of civilisation, viz., Mesopotamia, was undoubtedly of greater advantage. Bengal could be reached only after traversing the whole region of the Ganges Valley; the sea-route in the Bay was full of risks. But the climate in Bengal was immeasurably more advantageous for agriculture. In Egypt the summer is very hot and dry, and soil temperatures of 55°—70°C. are experienced. Thus in summer the land formerly remained fallow. When the Nile flood inundated the region, the land was given over to the cultivation of winter crops. Bengal has a much more abundant rainfall and equable temperature than Egypt. Thus over the whole region two harvests a year may be obtained from the same field, while independently of double-cropping the yield also is very great. In Egypt the triennial rotation is introduced now on a large scale by perennial irrigation, and there has been recently an enormous expansion of cotton, which is a summer crop, as in the United Provinces, and is grown by means of irrigation.

The following table gives the indices of aridity in different districts in Bihar and Bengal:—

INDEX OF ARIDITY IN BIHAR AND BENGAL DISTRICTS

District.	Density of population.	Mean temperature.	Normal rainfall.	Index of aridity.	Percentage of gross cultivated area which is irrigated.
			Ins.		
Patna ...	763	24°C.	47	34·5	57·6
Purnea ...	405	23°C.	61	46·2	1·3
Monghyr ..	517	24°C.	54	39·7	18·4
Bankura ...	389	27°C.	53	35·0	6·0
Midnapore ...	528	25°C.	58	41·4	9·2
Mymensingh	776	23°C.	93	70·5	4·1
Noakhali (mainland) ...	1,202	25°C.	120	85·7	...

As we move further and further towards the lower portion of the valley, the climate gradually becomes damper, the difference between the mean temperatures in summer and winter agricultural seasons decreases, and the crops can be grown without water brought from wetter regions. The "Index of Aridity" indicates that we are in a forest belt, under conditions which are most favourable for vegetative growth. In Bihar we have three growing seasons, while in Bengal the croppings are even four and five. Bengal is not only exposed to moist sea winds from the Bay of Bengal which set in as early as February and penetrate further inland, but is also practically beyond the influence of the hot dry westerly winds that are so marked in the middle and westerly portions of the Gangetic Plain. Such winds which play an important part in the vegetation and agriculture of the Gangetic Plain are felt only occasionally and intermittently in Bengal. In the central and western districts, where such winds are more evident, these are far less hot and parching than in the west, due to the moisture taken up from the surface over which these blow. But the highest temperatures of the hottest months, April and May, are recorded from these districts. In Eastern Bengal the hot season is somewhat moister and its temperature rather lower than in Western Bengal. The rainfall due to proximity to the Bay and the Khasi Hills is much higher than in Bihar or West Bengal. In Dacca Division the normal rainfall is 81 inches and in Chittagong 97 inches. The sloping surface of the hills causes the upward motion of the air current, and the rapid increase of rainfall in the eastern and northern districts of Bengal. The rainfall thus is unevenly distributed in Bengal. The average rainfall ranges between 50 and 75 inches in the south-west, centre and west, and between 75 and 120 inches in most places in the south-east, east and north. It is still heavier in and near the hills, and near the coast than on the plains farther inland. The lowest rainfall in Bengal is that of Bankura and Malda districts, where the rainfall averages 54 inches.

### Alluvium, Old and New.

The whole of the Gangetic Plain is peopled at a high density, and certain portions have a very thick population. But the Plain, although topographically uniform, is not similar from the point of view of climate. It is rainfall rather than soil conditions, which for the most part govern agriculture, and condition population-density in the Plain. The whole of the valley is very old formation, and it is not before we reach the active delta that the soil factor influences density. Throughout the Plain the alluvium consists for the most part of a sandy micaceous and calcareous clay. The main differences between one soil and another lie more in the average size of the particles than in their chemical composition, even the soils conventionally known as clays and heavy loams containing a large preponderance of silica in a state of minute subdivision. Such differences are attributed to the sifting action of the water from which they are deposited, the deposits varying largely with the velocity of the river-current. From the agriculturist's point of view the great bulk of the alluvium contains adequate quantities of lime, potash and phosphoric acid. The amount of nitrogen is small but in the agricultural seasons the process of nitrification is much more rapid than in colder climates, so that the small supply is more often renewed. In the Middle and Western Plain the older alluvium is distinguished by the presence of nodular segregations of carbonate of lime (*kankar*) and concretions of hydrated peroxide of iron (*baribunt*). Soils in the Lower Plain are distinctly lighter in colour and denser than those in the Western Plain. Commonly substrata are found in well-defined layers of sand, clay and loam; but occasionally the soil may extend unaltered in colour and consistence to a considerable depth. The soils vary from drift sand to clays. In the delta the proportion of sand-silt and clay varies more considerably with the rivers which deposit them and with the point of deposition. In Bengal the new alluvium which may be regarded as the area of deposition can be clearly distinguished for the most part from the old alluvium which is the area of denuda-

tion. In the latter the peculiar physical condition of the soil, accentuated generally by a deficiency of organic matter, renders it in many cases almost impossible in Bengal to obtain a really fine surface tilth for sowing operations. Accordingly these old alluvial soils are not cropped to any extent during the *rabi* season, when very little rain falls. Chemically these soils are characterised generally by a great deficiency of lime and phosphoric acid; the amount of organic matter and nitrogen present is also low. Bacteriological conditions do not therefore favour the growth of more than a limited number of crops. Of these, the most important are *aman* paddy and jute, the physiology of whose nutrition is different from that of most field crops. In the active delta, the soils of the new alluvium differ in their physical condition from those belonging to the old alluvium. The new alluvium may itself be distinguished into the newer and older deposits. The older deposits usually consist of a rich loam-soil of great agricultural value. The newer deposits vary much in character according to the river which yields the silt. The Meghna, for instance, brings a large proportion of decayed vegetable matter from the swamps of Sylhet, and is relatively straight and slow. Thus sand-banks form slowly and gradually, but on formation they are so heavily laden with organic matter and nitrogen that they are able to bear a crop of boro-paddy before they even emerge above the surface of the water. On the other hand, the Padma yields very often a fine sandy-loam which overlies a subsoil of almost pure sand. These soils are often deficient in organic matter and nitrogen. Thus it is not until the Padma sand-bank has emerged considerably above the level of water, that the alluvium acquires sufficient consistency to bear a crop. In the newer alluvial formations, besides these variations in the different rivers, the fertility increases according to the down-stream of the new formation. This is chiefly because the rivers first deposit the lighter particles of sand, and the heavy clay held in solution is left behind; the clayey matter which naturally forms a more fertile deposit is deposited further down the river.



It is thus, that the three rivers Ganges, Brahmaputra and the Meghna along with their tributaries are building up different soils in different parts of Bengal, which are responsible to some extent for a variety of crops and farm-practices. Throughout the active delta, owing to the superior physical condition and greater amenability to cultivation, the soils are regularly cultivated and cropped during the *rabi* season. Here again, the newer alluvium of the Meghna, which is the youngest of the great rivers, being richer in organic matter and nitrogen, is peculiarly adapted to a heavy cropping of wet varieties of rice. It is probable that when the land formation of Noakhali and Tippera is completed within the next fifty years, these districts will be found to maintain a higher population in density than the districts fashioned by the two other rivers. An agricultural differentiation due to the Meghna estuary is already noticeable to some extent in Bakarganj, but this will take decades to manifest itself in sharp contrast. The difference, however, between the new alluvium in active delta and old alluvium in Central and Western Bengal, as representing contrasted types of soil, is quite apparent in the cropping as shown below<sup>1</sup>:—

<i>Old Alluvium</i>	<i>New Alluvium</i>
Paddy (larger proportion of <i>aus</i> than <i>aman</i> ).	Paddy and Jute (larger proportion of <i>aman</i> ).
Jute (to a small extent).	Sugarcane and pulses.
Sugarcane (largely).	Oilseeds, <i>e.g.</i> , linseed, mustard, nigar seed and til.
Maize, jowar and other millets.	Cereals, <i>e.g.</i> , wheat, barley and oats.
Pulses and oilseeds.	Tobacco.
Wheat and barley (to a small extent).	

### **Crops and Irrigation Practices in Different Parts of the River Basin.**

For Northern India the classification of crops into “wet” and “dry” crops is universally adopted. The distinction goes

<sup>1</sup> Bengal Administration Report, 1921-22, p. 5.

into the roots of agriculture. Wet crops include such as rice, jute and sugarcane, such aquatic plants adapted by a long process of control and selection for human use. We have seen that as we travel down the Ganges Valley towards the delta, the wet zone crops prevail more and more and the dry crops—wheat, barley, millet, maize and gram—become less and less important. In Bengal rice occupies practically 75 per cent of the whole cultivated area and jute and sugarcane another 20 per cent. Now the wet crops not only need a more abundant water-supply than dry crops, but they also require to be grown much nearer the water-table than the latter do. Most of the dry crops have long lap roots which penetrate deeply into the soil for food; while the wet crops have a surface root system, and thus can grow most successfully where the water-supply is abundant and the sub-soil water-level very near the surface. The cultivation of rice is thus very unlike growing wheat or any other cereal in the Upper Ganges Valley. In the case of the latter, the land is ploughed, the seed is sown broad-cast and then the agriculturist concentrates all his energy as well as his bullock power towards artificial irrigation so that he can get a bumper harvest. But rice is not grown in this fashion, except in a few uplands and in places where labour is scarce. To obtain full value from the crop, it is necessary to transplant the seedlings shortly after they have sprouted. Ploughing starts soon after the early rain has moistened the soil sufficiently. Next a few selected fields are sown heavily. While the seed is sprouting, other fields which are to contain the crops are prepared to hold water to a depth of a few inches, mud forming the base of the necessary embankments. When there has been sufficient rain to flood these fields, the labour of transplantation begins. Armfuls of paddy are torn up from the fields where it was formerly sown, and taken to the flooded fields. There a hole for each individual plant is punched, round which the earth is pressed so that the transplanted plant can have a new lease of life. Every single stalk of the waning fields of rice is separately transplanted. This is how rice comes into being in the Bengal Delta. It is the

result of the labour of bare backs bent to a task which starts at dawn and continues till dark, day after day, in mud and water till the monsoon ends. Thus the monsoon is called the *badan-tor* or back-breaker in the peasants' vocabulary.<sup>2</sup> In Northern India the monsoon relieves or ends the cultivator's toil; in Bengal it commences a period of toil so intense that there is a general sigh of relief among the agricultural labourers when the last great thunderstorms announce that bright, sunny days are coming again.

Rice must be grown in mud and water, and unless it is transplanted, the grain will be coarse. The roots of rice must continually be fed by the ingress and egress of silt-laden water. The investigations of Harrison and of his staff at Coimbatore in Madras on the gases of swamp rice soils have drawn particular attention to the importance of the oxygen supply to the roots of the rice crop by means of a slow movement of aerated water through the upper layers of mud in which this crop grows. The roots of rice must have a constant supply of oxygen. Since they are immersed in mud and water, the only way this substance can be provided is in solution in water which must move slowly through the soil. The natural flood of flush irrigation slowly changes the water and renews the supply of dissolved oxygen for the roots of rice. Similarly, jute exhausts and impoverishes the soil to a much greater extent than most crops; and, excepting in the case of *chars* flooded annually and very low lands, which derive similar benefits by drainage, it is in very few instances only that it is grown in the same land for more than three years consecutively.

In the Middle and Upper Ganges Valley where dry crops are most important, irrigation for the *rabi* is most important, effective and economical. The *kharif* crop which includes rice, cotton and sugarcane in a year of deficient or untimely rainfall cannot be saved in its full value by artificial water-supply. Perennial irrigation has been provided for the Upper Ganges Valley by a net-work of canals, commanding more than two million acres,

<sup>2</sup> The Statesman, October 5, 1927.

supplying water throughout the year, but chiefly for the *rabi* crops in the dry season. In the Middle Ganges Valley, it is mostly by well-irrigation that the cultivation of *rabi* crops is carried on. The distinctive sub-regions in the Ganges Valley present characteristic types of irrigation. The world's largest system of canal irrigation exists in the Upper Ganges Valley, and the most magnificent system of well-irrigation in the Middle Valley; in the delta we also have the world's most marvellous natural flood irrigation covering a vast alluvial plain, the most thickly populated area on the surface of the earth. In the Bengal Delta, the annual flood or flush irrigation during the rainy season, when the whole country appears to be almost submerged, is the main-stay of rice culture. During the rains a branch delta-channel from the main river acts as a channel of irrigation. When the river is in flood, water from the river passes into these *khals* or streamlets which wind through rice-fields in the interior of the country. After the rains, the current is reversed and we find water from the interior of the country pouring through the different tributaries and streams into the main river. The *khals*, indeed, then act as the discharge channels through which the immense volume of water contained by the spill basins during the flood season eventually passes into the river, after having deposited its silt and fertilised the land. As this huge volume of spill-water escapes, tremendous scouring is produced in every *khal* or discharge channel through which it passes, flushing them out in a very effective manner. When the flood is very low, on the other hand, the *khals* become partly silted up as a result of it.

Under natural conditions, a deltaic river system, says an unpublished report, performs a double function. During low water the *bils*, *khals* and the central channel serve the purposes of drainage, carrying off water from the depressed land surfaces of the lateral river basins; but in the flood season the water-courses cease to be drains, and entirely reverse their action, taking on at this time the character of irrigation channels. It is to this system of natural irrigation that active deltas owe their fertility. But

this fact has attracted little attention in Bengal, so that the importance of maintaining free river spill from the point of view of agriculture has been almost entirely overlooked. Moreover, the other important function of the river spill in the delta to provide for the natural scouring out of water-channels has almost escaped notice, with the result that irretrievable damage has been done to the rivers in many parts of the delta owing to the restriction of free river spill as a direct consequence of the construction of thousands of miles of embankments. These embankments have been designed either for the controlling of the rivers or for the purposes of railways and roads, but whatever their object, their effect has been the same, namely, in the first place, preventing the flood-irrigation which formerly enriched the land and kept it free from malaria, and in the second place, disorganising the natural system of flushing or scour, which is essential to delta channels if they are to remain open. As a direct result of these embankments, the soil of many districts has become impoverished, harvests have diminished and malaria has increased; moreover, silt and sand have accumulated in the beds of many of the rivers to such an extent that they have ceased to be active streams.<sup>3</sup>

### **Delta and Rural Density.**

Thus the agriculture of the delta is far different from that of the middle and western portions of the Ganges Valley. Crops, farming practices and irrigation here, all are dominated by the wet climate, moist soil and annual flush alternating with flood, associated with the delta-building functions of the larger rivers. The population-density, which always and everywhere corresponds to the proportion of twice-cropped to net-cropped area, is conditioned mainly by the state of the local river system which provides natural irrigation, to which the active delta owes both its health and productiveness.

<sup>3</sup> *Malaria and Agriculture in Bengal* by C. A. Bentley.

			Percentage of area cultivated to total land area.	Percentage of area cultivated to total cultur- able area.	Percentage of twice- cropped area to net- cropped area.	Mean density per square mile.
<i>Deltaic Districts.</i>						
Tippura	...	...	80	97 128*	...	1,027
Dacca	...	...	77	92	35	1,351
Bakarganj	...	...	70	85 113*	15	1,061
Faridpur	...	...	80	92 133*	...	1,198
Rajshahi	...	...	75	88 118*	...	...
Noakhali	...	...	77	93 150*	...	1,533
<i>Non-deltaic Districts.</i>						
Midnapore	...	...	66	74	1½	528
Birbhum	...	...	72	80	2	528

The figures marked with an asterisk represent the total of the percentages of cultivated area found to bear summer, winter, spring and miscellaneous crops.<sup>4</sup>

<sup>4</sup> The data used for this table are derived from the District Settlement Reports.

District.	Density of population.	Rainfall in inches.			Percentage of cultivated area (excluding orchards and gardens) found to bear				Total of columns. 6 and 7.
		March to May.	September to October.	Total.	Summer crops.	Winter crops.	Spring crops.	Misc. crops.	
1	2	3	4	5	6	7	8	9	10
Midnapore	528	8.63	11.32	19.95	17	81	4	0	98
Rajshahi	569	8.35	13.52	21.87	64	29	14	1	93
Faridpur	949	14.65	13.07	27.72	36	72	24	1	108
Mymensingh	776	17.96	17.90	35.86	64	53	38	1	117
Tipperra	1,072	17.84	14.84	32.73	44	74	18	1	118
Noakhali	1,202	19.06	24.46	43.52	45	90	14	1	135
Bakarganj	752	13.45	17.73	31.18	12	96	8	2	108
Dacca	1,148	17.5	14.3	31.8	27.12	41.43	23.48	7.47	69.05
Jessore	593	14.0	13.4	27.4	30.52	42.14	21.20	6.14	72.66
Bankura	589	7.5	11.7	19.2	...	55	34	14	55

It should be pointed out in this connection that the early rainfall in Bengal is due to hot-weather storms, or 'nor-westers' as they are locally called. Such storms are due to the interaction between the damp sea winds and the dry winds from the interior in Bengal and Assam, supplemented by the action of the hills in giving rise to vigorous forced ascent. Eastern Bengal and Assam enjoy the largest amount of such rainfall due to 'nor-westers,' though it must be remembered that these sometimes develop into tornadoes, which cause great destruction of life and property. The following table gives the distribution of early rainfall month by month in Bengal and Assam:

	Normal rainfall in inches,		
	March.	April.	May.
East Bengal ...	2'31	4'24	10'45
North Bengal ...	1'26	3'97	10'65
Assam-Surma ..	7'75	13'42	18'00
Assam Valley ...	3'56	8'00	12'03

### Rainfall and Rice Varieties.

Among the crops it is the two most important varieties of rice, namely, the summer rice (*aus*) and winter rice (*aman*), which are the best index of agricultural prosperity and density. It is for



this reason that the rainfall in the months from March to May and again for September and October rather than the total annual rainfall, which determines the fortunes of agriculture. Now in districts which enjoy an abundant rainfall, both early and late, can grow both summer as well as winter crops. Thus there is to be found a *correspondence between Early and Late Rainfall and Rural Density*.

*Aus* paddy grows on relatively high land and requires the least supply of water among the Bengal varieties of rice. Generally speaking, it yields, however, the least outturn and coarsest grain. *Aman*, on the other hand, yields the finest grain, but requires abundant water-supply. The percentage of area devoted to *aus* is much greater in West Bengal than in East Bengal. On the other hand, the agricultural security, and generally the rural density, in Bengal, increases with an increase in the percentage of *aman*. The *aman* crop grows on low-lying lands, generally clayey, and is *par excellence* the crop of the submerged delta. Thus the densely populated districts of Eastern Bengal devote 60—90 per cent of their net cropped area to this *aman* crop.

The *aus*, as we have seen, grows on high lands with a sandy soil, which are above inundation level and requires much less water than most of the varieties of paddy. At the same time it is more dependent on the season and requires more attention in its cultivation. The usual time for sowing *aus* paddy is the latter half of May. Its dominance in Western Bengal districts is due to the moribund nature of its rivers and the absence of floods due to the building of embankments. In Eastern Bengal the inundation of the two river systems, which makes the country one vast sheet of water, restricts *aus* cultivation and is responsible for the predominance of the *aman*. The relative insignificance of *aus* in the Eastern Bengal districts is further emphasised by its supersession in the high lands by a money-crop—jute, which cannot be grown as successfully in the West Bengal districts for lack of sufficient rainfall.

COMPARATIVE TABLE OF MONTHLY RAINFALL OF THE EASTERN AND WESTERN BENGAL DISTRICTS

	Midnapore (528)	Nadia (535)	Jessore (593)	Bakarganj (752)	Faridpur (949)	Dacca (1,148)
	Ins.	Ins.	Ins.	Ins.	Ins.	Ins.
March ... ..	1'64	1'82	2'11	2'22	2'33	2'63
April ... ..	1'87	2'55	3'66	4'78	4'72	5'36
May ... ..	5'09	3'87	8'08	9'20	9'04	9'75
June ... ..	10'04	10'66	12'67	16'33	13'36	13'56
July ... ..	11'89	19'32	12'20	15'60	11'40	12'84
August ... ..	11'91	16'57	15'94	13'02	14'08	13'14
September ...	8'62	8'03	8'55	11'15	9'29	9'76
October ... ..	3'87	4'38	4'89	6'26	4'74	4'6
Rest of the year ...	...	...	...	...	...	...
Total for the year	58	56'4	66'03	82'31	71'72	74

COMPARATIVE TABLE SHOWING PERCENTAGES OF NET CULTIVATED AREA UNDER RICE

<i>Aman</i> Rice ...	77'13	14	54	84'7	72'1	56'1
<i>Aus</i> Rice ...	13'31	66	32	8'8	22'1	16'1
<i>Boro</i> Rice ...	'87	'07	2	'3	1'1	9
Total ...	91'3	80'07	88	93'8	95'3	73'1

### The Predominance of Aman in the Lower Delta.

The dominance of the *aman* in Eastern Bengal implies less dependence upon local rainfall and more upon the rise of the rivers. The amount of the local rainfall during the early growing season (March to May), however, directly influences the *aus*

crop areas both in East and in West Bengal. This is shown by the following table:

	Early monsoon rainfall (March to May).	Percentage of <i>aus</i> to net cropped area.	Order according to the per- centage of <i>aus</i> .
Noakhali (mainland)	19'06	45	2
Mymensingh ...	17'96	64	1
Tippera ...	17'84	44	3
Dacca ...	17'5	27	6
Faridpur ...	14'65	36	4
Jessore ...	14'0	30'52	5
Bakarganj ...	13'45	12	7

On the other hand the amount of the early rainfall does not bear such close relation to the percentage of *aman* area. Drought does not affect the crop of the lower delta to the same extent as in Central or Western Bengal. The soil in many tracts retains a considerable quantity of moisture long after the rains have ceased. An early rainfall, however, is needed for both the *aman* and *aus* paddy as well as for the jute crop in order that the land might be prepared and the crop can grow properly at the first stage. When once the *aman* has got a start, and the land in which it grows is inundated, the crop becomes almost independent of the local rainfall. The *boro*-paddy is grown by the sides of *jhils* and on the edges of tidal rivers and creeks, and is either artificially irrigated, or is watered every time the tidal current comes. The state of things most injurious to crops in the delta would be a want of rain in the early months of March and April (Chaitra-Paisakh) followed by an early rise of the rivers, for then the sowing of *aus* and *aman* paddy as well as jute would be delayed and the late *aus* crop destroyed by the inundation water.<sup>5</sup> Thus floods

<sup>5</sup> A. C. Sen : Report of the System of Agriculture and Agricultural Statistics of the Dacca District.

are at once the support and the ruin of paddy. In a large part of the delta it is even somewhat difficult to classify paddy in the marshes as belonging to any agricultural season. Much of the *aman* rice might be classed as *aus* and some of the *aus* as *boro*, as the dates for sowing and reaping are dependent upon the level of the water which is convenient at very different periods of the year at different points in the fringe. The agricultural seasons also are far less differentiated in Eastern Bengal than in the west, as agriculture depends more upon the duration as well as the height of the flood than upon local rainfall.

Some inverse correspondence is discernible between a small early rainfall (March to May) and the area under *aman*:

		Early monsoon rainfall (March to May).	Percentage of <i>aman</i> to net cropped area.	Order according to percentage of <i>aman</i>
Bakargauj...	...	13.45	96	1
Faridpur ...	...	14.65	72	3
Tippera ...	...	17.84	74	2
Mymensingh	...	17.96	53	4

Generally speaking, however, the above correspondence cannot generally hold good in the case of the deltaic tract where the rain is never deficient or uncertain and the flood is always available to ensure the success of *aman* cultivation.

It is significant that the early monsoon rain or even the total amount of rainfall bears no relation to the double-cropped area in the deltaic tract. Both the percentage of *aman* to the net cultivated area as well as the proportion of the cultivated area which

bears two or even more crops increases as we proceed along the two river systems heart and heart the delta. This is shown by the following table:

		Early rain.	Total rainfall.	Percentage of gross cultivated area which is irrigated.	Double cropped area.	Per centage of <i>aman</i> .	Density.
<i>Moribund Delta.</i>							
Murshidabad	...	7'98	54'99	14'5	15'2	...	595
Nadia	...	11'37	55'11	1	24'05	...	535
Hooghly	...	9'88	57'42	26'2	2'5	...	909
Pabna	...	11'93	59'43	...	14'0	120	828
Bogra	...	12'01	66'29	...	32'7	...	760
Rajshahi	...	8'35	56'80	9	13'23	29	569
<i>Upper Portion of the Delta.</i>							
Dacca	...	17'5	74'72	...	20'1	41	1,148
Mymensingh	...	17'96	88'11	4'1	26'2	53	776
Faridpur	...	14'65	72'79	...	14'8	72	949
Tippera	...	17'84	81'92	..	40'2	74	1,072
<i>Lower Portion of the Delta.</i>							
Noakhali	...	19'06	113'80	...	31'9	90	972
Bakarganj	...	13'45	89'29	...	14'7	96	752
Khulna	...	12'28	71'83	...	11'5	...	307

### Significance of Summer and Winter Rice.

Nothing can show better than the above table the importance of flood-water in the agricultural economy of the Bengal Delta. We see from the above figures that the nearer we go towards the Bay where the rivers are most active in building the delta, the greater the percentage of *aman*. The disparity of the percentages of double-cropped area between the districts in the Dacca Division is due to the fact that as yet no pressure of population has been

felt in the lower deltaic tract, which is as yet less developed; a district like Dacca or Mymensingh has reached high percentages of double-cropped area because of high population density, but these figures the districts in the lower reaches will sooner or later outreach as the population presses upon resources. *Boro* (spring rice) is a hardy crop which is cultivated along the edges of *jhils*, *khals* or streamlets and in soft marshy lands. Now, *boro* gives usually a heavy outturn, and is most commonly grown along the banks and in the *chars* of the active rivers, as well as in the swamps of Eastern Bengal which occupy a large portion of the total area. The dominance of *aman* and *boro* explains the fact that at present the outturn of rice in the fertile swamps of the active delta is half as much again as in the other parts of Bengal. On the other hand, in the moribund delta, the *aus* paddy which can grow on less amount of water-supply tends to replace *aman*. It has been estimated that between 1906 and 1920 the normal area under *aus* has increased by 10 per cent in Jessore and by 50 per cent in Nadia district. Nothing can show better the effect of the change from active to moribund deltaic conditions. It is also significant that in the less recent alluvial tracts of Dacca and Faridpur, which do not enjoy the advantages of an annual ingress and egress of flood water as the more recent ones do, *aus* is more prevalent, and when *aman* is grown, it is ordinarily much poorer and only becomes good when inundations come and are widespread.

Jute can be grown in almost any type of soil which has the necessary depth as well as sufficient water to keep the soil moist. A swampy soil and an excessively damp atmosphere are not necessary for its successful growth. In fact the finest jute in Dacca is grown on land which never goes under water. Jute grown on a higher level produces a superior fibre to that cultivated in low-lying areas. Thus, jute thrives well in most parts of Bengal, but best of all in the rich alluvial areas in Eastern Bengal, for it is an exhausting crop on soil not benefited by inundation silt. On high lands, which are never submerged, it is necessary to

manure for each crop of jute. The distribution of jute is as follows :

Eastern Bengal	...	...	64 per cent.
Northern Bengal	...	...	26 „
Central Bengal	...	...	8 „
Western Bengal	...	...	2 „

Some of the world's highest records of rural density have been reached in Eastern Bengal as a result of the dominance of *aman* and jute along the tracts bordering the mighty rivers. The percentages of both these crops are much lower in Central and Western Bengal where the delta has ceased to be active.

---

## VILLAGE DEBT SETTLEMENT

A NEW ACCOUNT OF ELPHINSTONE'S POLICY IN THE TERRITORIES  
CONQUERED FROM THE PESHWA IN 1817

*Compiled from Unpublished Documents in the Poona  
Residency Records*

BY

H. GEORGE FRANCIS

As an administrator it is generally conceded that Mountstuart Elphinstone was one of the most capable and successful British officials with whom lay the destiny of India after its final conquest. His minute on the condition of the territories conquered from the Peshwas is admittedly a classic as far as historical material is concerned, although through all the years there has up to now been no attempt either to discover or to give further attention to the detailed information on which he based that minute. Nor has a serious attempt been made by any modern historian to trace out the way in which Elphinstone's policy as first Commissioner of the Deccan was administratively based on the results of his detailed investigations, by means of a questionnaire consisting of 209 queries, into the judicial and civil administration as it existed throughout the Peshwa's territories. Yet Elphinstone was anything but an iconoclast. The recently-discovered letters outlining both the primary and secondary phases of his administration—the settling of which was placed almost entirely in his hands—reveal a remarkable desire and determination to follow as closely as possible the systems and methods in use at the time of the conquest, and to cultivate a similar desire amongst his colleagues. His



circular letters to the first five Collectors he appointed literally breathe sympathy for and friendliness to the people who were to have a new Government forced upon them; and there was not one detail of their needs or problems which Mountstuart Elphinstone overlooked. This theme is in itself one which will repay the closest study, and it can safely be said that Elphinstone's system of "Reforms" which superseded a Swaraj which had degenerated into anything but a happy and efficient form of Government will provide the modern student of Politics, particularly in Western India, with a vast amount of useful material to think of. This is not the place to elaborate this theme, but the foregoing remarks will serve perhaps as a background to the following summary, compiled from original letters and reports of Elphinstone's successor as Commissioner, of the way in which they tackled one of the greatest economic problems which confronted them. In his classic minute on the conquered territories, Elphinstone alluded very strongly to the subject of the village debts contracted during the Peshwa's administration, and when the general administration under the new Government had settled down, Elphinstone and Chaplin (his successor as Commissioner) drew up a very comprehensive scheme by which the Collectors in charge of all the five districts into which the Peshwa's country had been divided (Poona, Ahmednagar, Satara, Khandesh, and Dharwar) could adopt a uniform system of dealing with the problem. The scheme itself was officially outlined on March 21, 1820, and will serve, with a general picture of the existent village conditions, as a valuable study in debt conversion and rural economics.

Probably because of its intricacy and delicacy, "this very important question which is so intimately connected with the future dispensation of justice and with the prosperity of the moneyed interest as well as of the cultivating classes," was the last great problem to be discussed and decided. "Almost every village throughout the Mahratta country," the official reports stated, "is involved in debts, which have arisen either out of the

improvidence and extravagance of the village managers, or (what is more commonly the case) out of the exactions of the officers of the late Government. These debts are contracted with Sahoo-kars (shroffs), or others composing the moneyed interest, and they were usually paid by extra assessments upon the villages, which were imposed under the various denominations of Khureh Puttee or Noogsan Puttee, or under the more general and indefinite head of Sadirwarid or contingent charges." Even in the light of the detailed investigations undertaken by local officers at that time, it was found impossible to give even a rough estimate of the total of the village debts, but as they were admittedly extremely general "and from the abuses of the farming system had been going on accumulating under a ruinous system of usurious interest for a long series of years," the official calculation was that if the total could be definitely ascertained, "it would probably be found to exceed the means of the country to discharge it."

When the Government of the country was changed, the practice of making extra levies upon villages beyond the amount of the fixed assessment was stopped, which meant that the fund by which the public debts had previously from time to time been partially discharged became exhausted and closed, "and the village creditors found that they no longer possessed the means of compelling the performance of engagements which, to a certain extent at least, were considered valid by the old Government." The question of debt-settlement, therefore, quickly became one of the greatest worries of the Collectors' work, and for a time there was considerable embarrassment amongst them "how to avoid the denial of justice on the one hand if the claims of the creditors were without a hearing indiscriminately rejected; and the ruin of the ryots and the certain immediate defalcation of revenue on the other hand if they were admitted." The immediate result of such a delicate dilemma was that all suits of that nature were suspended until the Commissioner devised a remedy which would not only satisfy the majority of those concerned but which

would restore some stability to credit which had been severely shaken by the refusal to decree upon such financial matters.

#### GREAT CAUTION NEEDED.

It was obvious then, and must be equally obvious now that such a question which involved a number of combinations could not be reduced to a single general rule. "The utmost caution, too, is requisite," said the Commissioner, "lest in our desire to afford redress to one class of our subjects, we do not materially trespass upon the rights of another, and at the same time sacrifice the just interests of Government by any injudicious regulation which, by ordaining the validity in general of claims of this description, might virtually be equivalent to discharging them from the public exchequer. Many of these debts are unquestionably founded on collusive agreements by which bankers have become established public creditors, although no part of the loan ever reached the public treasury. Many are founded on forced contributions, and in a plurality of cases have their origin in arbitrary impositions levied from the ryots beyond his ability to pay. In all, they may be considered anticipations of the future years' rents, the only fund from which the ryots can ever discharge them. It must be admitted, however, that a large proportion of them are *bona-fide* engagements, and as the late Government considered them binding, the obvious principles of justice prescribe that the British Government should consider its faith equally pledged to ensure as far as possible their fulfilments. Indeed, it may be questioned, whether the deliberate abrogation of such contracts would be attended with any eventual benefit to the cultivating classes, for though it might afford them temporary relief, yet it would probably, by destroying their confidence, have the baneful effect of obstructing the future channels of credit and by that means occasion a stagnation both of commerce and agriculture."

An apparently easy solution would, of course, have been for the Government to have accepted the responsibility of the village

debts as part of their heritage from the Peshwas, to have discharged the debts from public funds, and thus have given all concerned a clean start. But it is equally clear that apart from the financial magnitude of such an undertaking, the intricate and perplexing investigation which would have been required to substantiate each claim constituted an immediate objection to such a solution. Yet to leave things as they were "without allowing the heads of villages to resort to the extra assessments and without restoring the powers of *tugaza* (or coercion) formerly in the hands of creditors would be virtually equivalent to annulling the claims, a procedure which might reasonably be considered an act of injustice unworthy of the liberality of the British Government." The restoration of the arbitrary practices was at once ruled out, as it would subject the ryots as a body "to many of the oppressions from which they have been delivered, and as individuals to the caprice and tyranny of every exasperated or avaricious creditor, whilst a middle course would have permitted the creditors to harass the ryots without ever procuring full payment to himself, whilst the industry of the ryot would be checked by the feeling that the fruits of his labour were not his own."

From this general outline of the situation, it is obvious that the administrators of 1820 were faced with a pretty puzzle, and it would be decidedly interesting if our present-day economists were asked to put forward schemes of solution and then a comparison made with the solution as evolved by Elphinstone and Chaplin.

To quote the official decision: "The only course appears to be to leave these questions to the ordinary courts of justice, to be decided upon their respective merits. This is certainly objectionable inasmuch as it will be likely to promote a spirit of litigation and to clog our judicial tribunals with a number of suits which from their intricacy it may be difficult to bring to a final adjustment. A previous general investigation into the nature and extent of these debts might be useful in facilitating judicial decisions, but it would probably have the effect of reviving endless claims which are now dormant or obsolete and which the creditors

themselves have already written off as a loss, which might naturally be expected to arise out of a revolution like that which has subverted the old Government. The danger, however, of embarrassing our courts with a multitude of these causes and the difficulties of deciding upon them will be greatly obviated by a general classification of the debts under different heads by previously determining which of them shall or shall not be deemed actionable, and with whom the responsibility of liquidating them shall rest. Where there is great fraud in the transaction, it must be set aside, and where the debts are really due, all usurious accumulation of interest of course will be deducted. This of course refers only to village debts, although these however are often distributed in detail amongst the ryots and are therefore not easily distinguished from private debts. Those which are really private individual debts should undoubtedly be left to the ordinary tribunals with such limitations as to time and interest as may be deemed equitable."

It might at this stage help this study if we made a brief reference to the rates of interest which prevailed in the Peshwa's territory at the time of this attempt to settle the village debts, and also to the way in which loan transactions were conducted. On this point an official report says: "The rates of interest in the territories composing the late conquests, and probably throughout Asia, are always fluctuating and variable, partly in proportion to the redundancy of money in the market and partly to the risk incurred by the lender. There never existed any uniformity, established by any legal restrictions, as to the amount of interest, this being for the most part in a ratio to the security or insecurity of the transaction, and with reference to the respectability of the borrower. The medium rates where the security is unexceptionable are extremely high compared with those of Europe. There the profits of trade are low and the rate of interest keeps on the same level, results which proceed from the variety and extent of mercantile dealings which give rise to a class of opulent money-lenders whose competition to supply the wants of less substantial

speculators reduces the hire of money to its natural limits. The same principle, with respect to the connection between low profits and low interests, operates in India, where we accordingly find a correspondence between the high profits of trade and the high rate of interest."

### INTEREST RATES A CENTURY AGO

From statistics to be found here and there in the Residency Records and from the official reports of the Commissioner, it is now possible to give some definite information about the general rates of interest on money transactions more than a century ago, in 1820.

Bankers with whom deposits of cash were entrusted, payable either on demand or at short notice, allowed an interest of from 3 per cent to 6 per cent per annum, whilst on loans between bankers themselves the usual rate was from 6 to  $7\frac{1}{2}$  per cent. Petty traders who borrowed from regular bankers paid an interest which varied according to circumstances from 12 to 24 per cent, whilst persons who had no fixed employment and agriculturists could seldom raise money at less than 24 per cent, a rate which, however, often rose to 48 per cent. As a general rule, however, the cultivating classes paid between 24 and 30 per cent for their loans.

But regular bankers were not the only loaners of money, for there was in addition a class of petty moneylenders who frequented the weekly markets, particularly in the Southern Mahratta country who are described by Mr. Chaplin as "the greatest usurers of all the jobbers." The dealings of these men, who were known as "Warkars," were, however, confined to the most necessitous classes, and the hazard they ran of losing their capital altogether made the Commissioner incline to the view that "they were justified perhaps in the exorbitancy of their transactions." Their loans seldom exceeded half a rupee, although in exceptional cases the borrower was allowed Rs. 30. With such dealers the rate of interest was commonly one pice per rupee payable weekly, which works out to an annual interest of 120 per cent. In some places

even that rate was exceeded, the interest being one pice per week upon a loan of 16 pice—which gives an annual profit to the lender of 300 per cent. The loans were invariably adjusted on the eighth day, the circumstances of the debtors rendering any longer credit too hazardous.

Another species of loan was also common amongst ryots who borrowed money from Sahookars (*saukars*) for the payment of their *kists* (or annual dues) at a discount of 25 per cent, the borrowers engaging to repay the full amount upon the gathering-in of their crops. These loans were usually taken up about three months before the crops arrived at maturity, whilst in many districts additional money was also borrowed a fortnight or three weeks before harvest on an engagement to repay it at the future selling price of grain with the addition of from two to four seers of grain for each rupee borrowed.

Besides interest, there was frequently a premium paid for loans equal to from 2 to 4 per cent, the rate fluctuating in proportion to the necessity as well as the character and standing of the borrower.

On loans of grain, borrowed during that part of the year when prices were generally highest, and payable in kind at harvest time, an additional return per candy of from  $\frac{1}{4}$  to  $\frac{3}{4}$  or even a whole candy was frequently exacted. The period of such loans seldom exceeded seven months, which means that the interest was immoderately high, but it should also be borne in mind that “the frequent failure of the ryots, either partially or entirely, to fulfil their engagements renders the hazard of such loans very considerable,” and was largely responsible for the apparent exorbitancy of the creditors.

On purchases of cloth upon credit no direct interest was charged, although (as in the general case with credit transactions in modern retail business) the seller usually raised the price of the article in proportion to the risk and to the extent of the period during which he was likely to remain without his money. A similar procedure was adopted in the sale of cattle.

Regarding proofs of such transactions, it is interesting to note that whilst in some cases either bonds were taken or the loan entered and witnessed in the bankers' ledgers, there were many cases in which the business was entirely a verbal affair, sometimes supported by witnesses and sometimes without any corroborating evidence whatsoever, similar to the practice amongst the Bhils in Khandesh today. Should any dispute occur in settlement, the transaction was always referred to a *panchayet* who decided upon it according to its merit without considering (as was and is usually the case in British courts) the existence of promissory notes, bonds, or vouchers apparently indispensable to prove the debt.

It is now obvious that with loans dividing themselves into such clear-cut sections, it was comparatively easy for the Commissioner, in drawing up his scheme of settlement, to classify the most common forms of debt which were likely to constitute the principal forms of dispute and litigation, and it is especially interesting to note that in such classification the Commissioner first outlined the practice observed by the Peshwa's Government and then commented on the practicability or otherwise of its continuance.

“The first and chief class is that of village debts, or debts due from Mookuddims. The term Mookuddim, as it is generally used, applies to the heads of villages, including only the Potels and Kurnums. With reference, however, to village debts, it often includes one or more principal ryots, and occasionally even the whole of the ryots of a village, who sometimes enter into bonds to discharge such loans. But whether the contract is by bond, on account, or merely verbal, all such debts are denominated village debts. As under the Peshwa's system the periods at which the first *kists* are payable precede the time of reaping the harvest, it became necessary for the Mookuddims to make arrangements for liquidating these demands without compelling the ryots either to mortgage their crops or to raise money at a disadvantage upon their own individual credit. The Potels, Kurnums, and perhaps



a few of the principal cultivators accordingly having pledged their individual security, the Sahookar paid the revenue to the Government officers agreeably to the fixed instalments. Many such debts contracted during the late Government are now due from villages to Sahookars, and the heads of villages, when called upon to pay, acknowledge the justness of the demands but state that they have no means of discharging them except by resorting to the old practice of levying an extra imposition upon the ryots which, being of course incompatible with the rules now established restraining such extra contributions, renders the balances now irrecoverable."

"With regard to *bona-fide* loans of this nature," continues the official order, "there is no doubt that where the Mookuddims have entered into the engagement without consent of or communication with the ryots, they alone, according to the practice of the country, are individually responsible for their payment to the extent of their means. The instances in which they have given their individual security will be found very common, and as in most cases they undertook to bear the profits and loss of the village, whether the actual collections of the village exceeded or fell short of the *jummabundi* fixed by the *mamlatdars*, they alone would appear to be justly answerable for such debts. Any extra levies to satisfy such demands, although they often took place arbitrarily under the former irregular management, were rather connived at than authorised by the late Government, and as it is obviously oppressive and certain to occasion at least a corresponding loss of revenue, the practice cannot now be reverted to. What cannot be realised from the Mookuddims must be deemed irrecoverable."

"In some villages, debts of this nature have been distributed in detail amongst the whole body of the ryots whose vouchers having been taken, in the names of the Mookuddims, have given to the Sahookars their personal bonds for the amount. The Sahookars now, of course, claim their balance from the Mookuddims. These debts are mostly of old standing and all

of them having been contracted before the war, many of the ryots are now dead, many have been ruined, and some have absconded or removed to other villages. The debts of such ryots obviously cannot now be realised and even where they can, the Mookuddims, knowing that complaints of this nature are now either not received at all or received with great caution, object to pay any part of the demand. As such debts have been contracted, like those mentioned in the foregoing class, upon the confidence of the Mookuddims' responsibility, they ought still to be made liable, as far as their circumstances will admit of it. The Mookuddims, on the other hand, according to the practice of the country, having the security of the ryot: would in such cases be permitted to recover the debts due by each individual, and whatever deficiency remains, either from death or failure of individuals, to be realised, would be assessable generally on the Potels, Kurnums, and such of the ryots who were party to the loan, and for whose general benefit it was contracted. Those who may have, subsequent to the transaction, taken up their abode in the village, would of course not be answerable for any part of the debt. If the whole of the old inhabitants were in such low circumstances as to preclude the possibility of their liquidating it, the Sahookar had to look solely to the Mookuddims for payment, and in the event of their being bankrupt, the recovery of the money was considered hopeless. The same principle may now be applied to the liquidation of such demands, under such limitations as may be best calculated to prevent the abuse so likely to arise from all extra assessments."

"In a few villages it will be found that the heads of the villages have procured, in the name of the Sahookars, the bonds of each ryot for his portion of the aggregate debt. Part of these bonds have been discharged and part still remain unpaid, and the Sahookars now sue for the balance. In such cases the personal security of each ryot being pledged, they of course and not the Mookuddims are liable, and where the death or insolvency of individuals is the cause of non-payment, the debt of the

Sahookar would have been considered then, and ought now, to be deemed irrecoverable."

"When Sahookars have taken collateral security for their loans, the security will naturally be held responsible. He will of course have his lien upon the Potels, and they upon the ryots, under the limitations and conditions previously proposed in this order."

### FORCED INTO DEBT

Such was the disposal of what were generally recognised to be *bona-fide* village debts; but the types of debts so far dealt with were not the only legal borrowing transactions with which the new administration was called upon to deal. There were also the village debts arising out of "dands" or forced contributions under various titles such as, *ghas dand* or forage money; *nuzzur puttee* or impositions for presents; *khasgee puttee*, or the *mamlatdar's* privy purse; *luggum puttee* or assessment for a marriage or other ceremony by the public officers; *darbar khurch* or bribes to the functionaries of public service; and a variety of other heads. To satisfy these demands the Sahookars came forward and paid the bill for the village after obtaining the necessary bonds or vouchers. Such transactions as far as the money-dealers were concerned were in most cases unquestionable, and it mattered not from their view-point (or from the legal view-point) whether the exactions which gave rise to them were just or unjust. At the same time, a careful enquiry made by the Commissioner and his quintette of collectors frequently revealed that the bonds were taken by Sahookars who were in partnership with the Revenue contractors, and so the Commissioner's orders were that in all such cases there was to be no hesitation in declaring the bonds null and void as having their origin in fraud and extortion. But as that was not the case in all such debts, many were judged recoverable from the bondholders. In many cases, inability to support torture or fear of being reported to headquarters drove the Mookuddims to the

Sahookars, and so the Commissioner ordered that under such circumstances the money-dealer was as much entitled to recover his loan as though the transaction had been completed for the legitimate purpose of paying the just dues of the Government.

But even this is not the end of the tale of village debts, for many were contracted on the faith of the Mookuddims for advances of *tuckaree* (*tagari*) either for the purchase of seed or grain or cattle, or for the mere subsistence of the ryots. The Mookuddims resist the demands for personal repayment of such loans on the plea that they were not actual village debts; and in such cases the Commissioner ordered that the principles laid down for the other debts should here be applied.

The next class of debt, as a class, which the official records deal with, are those loans contracted by *mamlatdars* from Sahookars for their own private use and benefit, debts "into which any enquiry further than what may be necessary to ascertain their real character is quite inexpedient." *Mamlatdars*, it seems, were frequently granted loans on specially cheap terms "to secure for the Sahookar the favour and protection of the *mamlatdar*," and it is pointed out in the records that from the frequent changes and removals of those officers the recovery of such debts must always have been extremely precarious. In fact, at this distance of time it would appear that the Sahookar looked upon such transactions more as presents than loans, even though he took where possible the usual precautions in the shape of corroboratory evidence of the loans. On the approaching removal of a *mamlatdar*, the Sahookar always made a formal demand for payment and in many cases in default of it actually obtained in his own name bonds procured by the *mamlatdar's* arbitrary authority from the villages in lieu of balances alleged to be due by the inhabitants. Such bonds, it seems, were very numerous and not infrequently were supported by security obtained in the same forcible way. The heads of villages naturally objected, when the administration changed after the conquest, to liquidating debts

which they really had no hand in contracting, and as such bonds were in a plurality of cases for sums unjustly imposed on the villages under the denomination of some extra 'dand,' orders were issued by the Commissioner that they should be considered entirely invalid. The Sahookars themselves, from whom the exactions were made by *mamlatdars*, were often indemnified by bonds procured in the same tyrannical way, but even such bonds as those, adds the official order, "ought to be deemed of no more force than waste paper."

Another kind of bonds, "equally founded in iniquity," were those extorted by the *mamlatdars* from the heads of villages in lieu of pretended advances to Government for *darbar khurch* (bribes) or other purposes. Such bonds were not, however, taken in the *mamlatdar's* own name but in that of some Sahookar to whom they were afterwards legally transferred, and who naturally after the conquest claimed the full amount from the head of the village, even though the *mamlatdar* had had the money and no valuable consideration had ever been received for the bonds by the village from either the *mamlatdar* or the Sahookar. The bonds were of course on the face of them as good as any others and were often supported by collateral security; but the Potels in every case disclaimed all knowledge of the bond-holder when they were presented for payment. Orders were issued by the Commissioner in such cases that the British tribunals would have to be especially cautious in such cases in admitting the legality of such instruments, "and being aware of the nefarious practices that have prevailed under the late Government, will not consider the production of such a voucher sufficient evidence of the justice of the claims. All such bonds should at once be rejected whenever their real character is ascertained."

It was also not uncommon under the pre-conquest administration for bankers and other moneyed men to have procured the *Moamlut* of districts in the names of their own agents or *Karkums*. But under the new administration such a manipulation was of no purpose, for the orders to the collectors were to the effect that

“all claims in which Sahoo-kars have been associated in their management should be decidedly rejected even though supported as they frequently are by the collateral security of the Mokuddims or the ryots themselves.”

### LAND MORTGAGE PROBLEMS

But money debts were not the only ones for which villages were held responsible. Some debts to Sahoo-kars showed that Government fields under the title of *gram nisbat enams*, were mortgaged, the village agreeing to pay the rent of them to Government until the whole debt was liquidated when, it was stipulated, the land should revert to the Sirkar. The cultivation of such fields, however, was as a rule fraudulently concealed by the Kurnums and not entered into the public account, although there were instances where their rents were properly annexed to the *jamma*, or revenue list. The Sahoo-kar of course quickly sought redress which the villagers could not give him, and so after the conquest the general rule was at first established that the Sahoo-kar should continue to enjoy the possession of the land until the debt was liquidated or during his life, but it was shortly afterwards laid down that if the land had been recently acquired it should be relinquished when the proceeds amounted to the sum of the debt plus a reasonable interest, and that if the possession was of long standing, the receipt of double the amount of the debt would cancel it.

Regarding private debts incurred by the ryots for their individual needs, for purchase of seed and cattle, for mere subsistence, or for celebrating marriages or funerals, the orders of the British Government were that they should take their regular course before the ordinary tribunals, although the Commissioner issued orders that where advantage had been taken of the urgent necessities of the ryot to exact more than 24 per cent interest, the excess of interest above that sum was to be struck off as being usurious and exorbitant; whilst in cases of immediate disability to liquidate a debt, a compromise should be arranged or the loan

may be repaid by adequate and practicable instalments. And as a regular rule it was further decreed that "agreeably to the custom of the country," the interest was never to be allowed to exceed the sum of the principal. Regarding this latter rule, however, it was pointed out that it was frequently evaded by Sahookars who, by closing the account periodically and adding the interest to the principal, took a new bond for the whole amount. "Whenever this fact is established," runs the order, "it will be sufficient to decree the payment of such bond without any interest that may have subsequently accrued upon it."

The Sahookar, however, did more than merely loan money and collect usurious interest. In many parts of the conquered territories it was found that the ryots paid the whole of their rents through the Sahookars, a practice described by the Commissioner on one occasion as being "extremely pernicious to the ryot himself who, from his ignorance of accounts, is for ever involved in his banker's books, and also because it enables the Moamlutdars, by means of this intermediate agency, to commit great abuses with a certainty almost of impunity." It was admitted both by Elphinstone and his successor that the evil had grown so widespread as to be beyond the hope of an effectual remedy. Under such a system the ryot agreed to give up the whole of his crop to the Sahookar who, though he received it nominally at the current price of the day, always took advantage of the market to overreach the ryot to whom upon all advances of cash he charged an interest ranging from  $12\frac{1}{2}$  per cent to 25 per cent. Everything for his expenses and disbursement being advanced by the Sahookar, the ryot became in course of time, from the accumulation of interest, irretrievably involved and at length reduced to the condition of a menial slave to the Sahookar. This was a problem indeed for the new Government to solve, but with his habitual sympathy for and belief in many of the country's own local institutions the orders passed by the Commissioner were as follows: "When suits are preferred for debts of this nature, no tribunal is so capable of deciding them as a *panchayat*, the members of which alone

are qualified to judge of the manner in which such accounts ought to be adjusted and the dispute compromised."

Amongst various other modes of taking advantage of the ryot's necessities, which were practised by the bankers, was the granting of loans of grain advanced, payable at the end of a few months with 50 per cent or more in addition, and as such loans frequently remained unpaid, opportunity was taken, when the selling price was highest, to exact a bond for the pecuniary value. In such cases as that, the Commissioner's instructions were for the collectors to strike off all interest on the transactions which exceeded treble the quantity of grain advanced, "it being an established principle that the delivery of three times the original quantity discharges a debt of however long standing."

It was sometimes agreed that the advances of cash were payable in grain at harvest-time, according to the selling prices of the period when the advance was made. At the time of receiving the advance a deduction of 25 per cent was made by the Sahookar; which meant that for every rupee which the ryot engaged to pay,  $\frac{3}{4}$  of a rupee only were really loaned. That was, of course, a species of gambling speculation, the quantity of grain to be repaid being fixed, whatever alteration may take place in the meantime in the state of the market. In default of payment in kind, the custom of the Peshwas authorised a charge of 24 per cent interest upon the transaction. A custom very similar to that was when a ryot agreed to pay the Sahookar for every rupee advanced a rupee's worth of grain with a surplus of four seers in addition. In such cases as those, as the borrower was as much a speculator as the lender, no special orders were issued by the Commissioner.

Yet another subject of dispute which was of frequent occurrence and which occasioned the new administrative officers considerable anxiety was the position of *enamdars*, "such as Desaees, Despandees, Potels, Kurnums and others, who had mortgaged their lands on which an annual quit-rent was payable to Government, the *enamdars* still engaging to pay such rent." In many cases their resources failed, and so the officers of Govern-



ment, with a view to securing the public dues, took the *enam* into their own immediate management. A similar condition was produced in the cases of houses subject to professional taxes. The orders issued by the Commissioner in such cases as these provided for the mortgagee being allowed to hold the land or house, on his engaging to satisfy the Government demands upon them, for as long a period as was necessary to discharge the debt with a reasonable interest.

### SARDARS AND THEIR DEBTS

According to the Commissioner, who seems to have made a very careful study of the financial situation in consultation with Elphinstone, "one of the most difficult questions of debt is that which relates to loans contracted by great Sardars during the late Government." Many of these Sardars were, as the result of the attitude they took during the war, deprived of their lands and of the means which they formerly possessed of discharging their financial obligations. It is evident from the records, however, that at no time did the lenders possess any certain means of enforcing payment, and their position was immeasurably worse after the conquest when the Sardars were less capable than ever of performing their engagements. "It would be obviously unjust," comment the official records, "to place the creditors upon a better footing than they were at the time the transactions occurred, by using more strictness with the debtors than would have been permitted by the late Government. Many of these Sardars, however, avail themselves of the plea of the change of Government to withhold payment altogether, although possessed of the means of satisfying the just demand of their creditors for sums lent solely for their personal use and benefit, and which, as they have now got back their personal *jageers*, they ought unquestionably to liquidate. The difficulty, however, will be to distinguish personal loans granted in payment of their troops, for which the Sardars have become responsible. The latter are, of course, irrecoverable, and the hardship upon the bankers is not perhaps

very great, considering the enormous interest charged upon such transactions and the advantages they always derive from paying such advances in a depreciated currency."

Regarding the private debts of the Sardars, the Commissioner laid it down as a general rule that if the Sardars were not amenable for their discharge to some court of justice or public authority under the old regime, then any suits preferred against them on such account in British courts must clearly be excluded from cognizance, although where the debts were due by Chiefs whose authority was not independent, the suits should either be left to take their own course according to the Peshwa's system of *tugaza*, or if that mode of recovering the balances was carried to exceptional lengths, recourse could be had to *panchayets* for their adjustment.

### PERIOD OF LIMITATION

Another phase of the general subject of debts which came in for considerable discussion was the period that should be fixed beyond which claims for old debts were to be considered inadmissible. In the older British administration in other parts of India the courts were prohibited, with certain exceptions, from trying any suit when the cause of action had arisen twelve years before any process was commenced on account of it. It was obvious, remarks the Commissioner, that "so short a limitation of time as twelve years would certainly not answer for the conquered territories. There was no regular administration of justice under the former Government, and the country for a long course of years has been in a state of bordering upon anarchy. Each Chief afforded protection to refugees from his rival's territory, and no means in consequence existed of recovering debts of the most indisputable nature. In the Southern districts these distractions were perhaps more frequent than anywhere. In the year 1776 Hyder invaded them and carried off to Seringapatam many of the most respectable merchants. The disputes from that period to 1791 continued under the Mysore Government, and though the

country was tolerably well governed, the minds of men were as unsettled as the state of affairs, and so a great majority of claims under former contracts are supposed to have remained suspended. During the short period of Purseram Bhow's administration from 1792 to 1796 things were beginning to improve, when the death of Savaee Madhoo Row in the following year unfortunately brought about a reaction. The Raja of Kolapoor broke into rebellion, which was succeeded by the troubles incident to the incursion of Dhoondiah Mang, whilst the distractions produced by the conflicting interests of rival chieftains occasioned the utmost confusion throughout the country. The authority of Bajee Row was afterwards but imperfectly established, and when to the evils of a feeble government were superadded the abuses of the farming system under corrupt Moamlutdars, few debtors conceived it necessary to adhere to their engagements, because it was cheaper to purchase exemption from *tugaza* than to satisfy their creditors. This system continued up to the war, so that if we endeavour to look back to an era when the performance of engagements was at all regular, we must seek for it previously to Hyder's conquest—a period of 41 years. The opinion of the most respectable and intelligent inhabitants as to the limitation of the time for admitting suits, is that it ought not to be less than 36 years, or three times the number fixed for our older possessions, and that even with this extension of the period it is believed that many just debts will be excluded from a hearing. But," declared the Commissioner, "twenty-four years may be assured as sufficient to answer the ends of justice, although a more extended period must, according to the custom of the country, be allowed for claims founded on mortgage of *wuttums* or other lands, and the general feeling is that they ought not to be adjudged obsolete or inactionable within less than 70 years."

#### POPULARISING THE PANCHAYETS

In order to complete his instructions to the district officers on the question of debts, the Commissioner issued to them a few

hints on the administration of civil justice in so far as it related to debt recovery. "Although it is universally admitted," he said, "that the system under the late Government was excessively defective, yet it is stated as an advantage that people could occasionally, through the Sirsoobedars and Moamlutdars and Zumeendars and heads of villages, get justice at their own doors without being compelled to proceed to a great distance to obtain it. It is now a ground of complaint with them that the Moamlutdars will not receive their suits, and that they must in the first instance proceed to the Huzoor in order to have their cause put in the train of adjustment. This occasions expense, trouble, and interruption to mercantile pursuits which, it is conceived, might be obviated by giving the Moamlutdars power to hear and determine of themselves or by *panchayet* suits (subject to appeal) for debts not exceeding one hundred rupees, and by allowing, without reference to the Huzoor, the heads of villages or other persons of respectability to settle suits for debts to any amount by the *panchayet*, provided both parties in the suit agree to the mode of adjustment." The Commissioner agreed that this method of procedure regarding Moamlutdars was certainly liable to be abused, but he was of the opinion that the advantages of such a system would at least counterbalance the evil of it, and so it was ordered that all collectors introduce that method in all districts. In cases where the parties concerned were agreeable to settlement by *panchayets*, the orders were that as the Commissioner knew of no prohibition against such a proceeding, it might be adopted generally, although the public opinion seemed to be that it would be an assumption of power for *panchayets* to undertake such a work without the express sanction of the ruling authority, all collectors were instructed to affix to their cutcherries a proclamation giving encouragement to such private adjustments by *panchayet* or arbitration.

Such were the general rules, subject to alteration to suit local conditions, which were laid down for debt settlement by Elphinstone and his colleague Chaplin; and every student will surely

be impressed by the carefulness and thoroughness with which they were drawn up. Logic and common sense certainly predominated over legal dogma, and in every case the desire was to dispense personal justice mixed with practical needs. The greatest care was taken to prevent the under-dog from being trampled on because he was down, whilst the sympathies of the British administration were publicly proclaimed to be with the unfortunate people who had been made legal debtors through no fault of their own and in connection with money which they had never received. As an economic study of the common-sense method of tackling great financial problems, this policy of Elphinstone and Chaplin demands the closest investigation, whilst as a prelude to the task of dealing with the Shylocks themselves and reducing their exorbitant rates of interest, the policy is worthy of careful note. But this latter topic must make another story.

---

# THE ROYAL COMMISSION ON AGRICULTURE IN INDIA AND THE INDIAN RURAL POPULATION

BY

PROF. D. L. SAHASRABUDDHA, M.Sc., M.Ag.,  
*College of Agriculture, Poona.*

The Report of the Royal Commission on Agriculture in India is a voluminous one and it would be futile to attempt to deal with the various problems treated therein, in an article or two. We, therefore, propose to discuss briefly what the report has to say with regard to the promotion of the welfare and prosperity of the rural population.

We shall in the first place state in short the condition of the rural population as was found by the Commission in their enquiry, and then consider their proposals to improve the present state of affairs. India is a great sub-continent and one cannot but be struck by the apparent diversities it presents. But there are certain economic and social conditions which are common to almost the whole of India. There are very few large cities or urban areas; agriculture is by far the most important industry; the typical unit of cultivation is a holding of a few acres; the financial resources of the cultivator are slender. In rural areas, a resident middle class is almost entirely absent; illiteracy is the rule and not, as in Western countries, the exception. The Commission definitely state that the economic wastage due to disease cannot be over-exaggerated. Malaria slays thousands and lowers the economic efficiency of hundreds of thousands. Sanitation, in any

accepted sense of the word, is practically non-existent. The soils in general have reached such a state that they cannot deteriorate any further, although there are some tracts where erosion and salt efflorescence are throwing hundreds of acres out of cultivation. There is too much of fragmentation of land for cultivation. The number of cattle maintained at present is excessive but this large number is found to be necessary at present to make up for their inefficiency. Communication and marketing facilities are not quite as they should be. The financing of agriculture is not yet satisfactory and, lastly, there is a growing pressure of the population on the soil.

To improve the welfare and prosperity of a huge population living under the conditions mentioned above is a tremendous task, and any improvement that may be proposed is bound to be slow. Let us now consider the various suggestions put forth by the Commission with a view to promote the prosperity of the agriculturists who form over 73 per cent of the population of India.

Although the Commission do not make education of the masses a condition precedent to any improvement, yet they recognise fully the importance of education. They have some valuable suggestions to make. The first of these suggestions is to have for the rural population such text-books as deal with everyday objects familiar to the pupil and have a rural tone. The object of this is not to teach agricultural methods but to keep the education in tune with the surrounding conditions. This particular aspect of the question is not understood by several of our educational authorities, and hence they see a limited scope for schools with an agricultural or rural bias. Since three-fourths of our population is rural, nearly three-fourths of our schools must be with rural bias if they are to be of any use in the uplift of our masses.

The Commission advocate the employment of women teachers for small children. For the quick spread of education, they think that a definite effort should be made to impart literacy to a certain number of young mothers so that they will certainly see that their children are educated. Although this is not altogether a new

suggestion, it is worth while trying to see how far it helps the spread of education. In the secondary education of the agriculturists, there are two methods followed at present. One is the vocational school and the other is the ordinary rural secondary school. The Commission rightly discourage the first, because the vocational school cuts off all the ambitions which a young boy may entertain for higher education. Rural bias in the secondary schools should in no way prove to be an obstacle to higher ambitions. In the words of the Punjab Government Circular of 1923, "the aim is to enrich the middle school course in rural areas by the inclusion of agricultural training, and thus to bring it more in keeping with the environment of the pupils; and the object is to use agriculture as a means of mental discipline and training and as an important accessory to the general subjects taught in these schools."

In improving the sanitation of the rural areas, the Commission welcome the establishment of Public Health Departments and also welcome private efforts for the supply of medical relief. In the expansion of medical facilities, they suggest the adoption of a scheme followed in some provinces, under which a monthly subsidy is given to qualified practitioners to induce them to settle in rural areas. They also propose training of nurses and midwives on a much larger scale than at present, and short courses of 10 days or a fortnight to village women to learn to observe cleanliness and non-interference in midwifery cases. Improvement of water-supply by removing steps from wells for drinking water, to have bore wells where possible, easy distribution of quinine, cultivation of cinchona, etc., are some of their other suggestions. With regard to medical help the Commission have altogether lost sight of the indigenous systems which successfully coped against several diseases in the past, and which are cheaper than the English systems. If really useful work is to be done in medical help, we cannot afford to neglect the indigenous systems. New knowledge must be accepted but the old materia medica need not be changed. The need for the study of nutrition is important and deserves



'serious consideration at the hands of both the Government and the people.'

Education is necessary for knowledge and for progress, sanitation is essential for our very existence, but very little improvement can be brought about without money. Proper financing is the foundation of the improvement in agriculture, the basic industry of the rural population, as in any other industry. The Commission point out one great defect in the system of accounts of our agriculturists. There is no distinction made between sums borrowed for productive purposes and those for current needs. This, however, has no hope of changing, unless it is looked into by those who supply the money. The Commission find that the rate of interest charged by the village moneylenders is very high and that drives the agriculturists into the grips of the moneylenders, who slowly swallow their lands. The Commission find that the various enactments made in different provinces have, to a certain extent, given relief to the agriculturists, but people have found out ways to evade some of the legal technicalities. Provincial Governments offer help by advancing loans, but the private moneylender cannot be done away with. The Commission agree with the suggestion made by some in their evidence that no usufructuary mortgage of agricultural land should be permitted by law, unless provision were made for automatic redemption within a fixed period of years, of which twenty should be the maximum. In their opinion nothing but the co-operative movement can drive away the moneylender. The failure of the co-operative societies in many places has been due to want of proper help and strict supervision, and the Commission, therefore, propose that there should be a sufficient number of Government staff to help the societies and the honorary workers. They also agree with the opinion that land mortgage banks could, and should, be established under the provisions of the existing Co-operative Acts.

It must, however, be kept in mind that whatever the agency we create to finance the agriculturists and howsoever satisfactory it may be, it will help only those who can help themselves. Now

the problem is, whether an average Indian cultivator is today in a position to help himself. The answer will be an emphatic "no." The Commission say in one place, "To a very great extent, the cultivator in India labours not for profit, nor for a net return, but for subsistence. The crowding of people on the land, the lack of alternative means of securing a living, the difficulty of finding any avenue of escape and the early age at which a man is burdened with dependents, combine to force the cultivator to grow food wherever he can and on whatever terms he can." Under these conditions the cultivator can never pay back even a very small sum that he may borrow from any source. The real remedy lies, therefore, in providing him with work that will bring in money. The cultivator has spare time, and in the opinion of the Commission a large majority of cultivators have at least from two to four months' absolute leisure during the year. It is, therefore, necessary, in the interest of the cultivator and also in the interest of the country in general, that this spare time should be properly utilised. The Commission have rightly suggested the introduction of rural industries. They give a long list of industries which can be taken up by the cultivators during their leisure time. Many more can be added to the list, and people might select any which will suit their local conditions.

All the suggestions discussed above are very valuable, and every one of them, if brought into action, will help in improving the lot of the poor Indian agriculturists, but the great difficulty is, how to bring all the suggestions into action. Government must discharge its duties, but people also must be ready to shoulder their responsibilities. There is a great need of an agency which will direct the cultivators to take the fullest advantage of the development departments of Government. The Commission suggest that the agency should be a sort of a "Guide." In the Gurgaon District of the Punjab, sons of cultivators are given a special course of training which, in addition to imbuing them with a sense of the dignity of corporate labour for mutual benefit, is designed to familiarise them with the principles of sanitation, elementary

medical aid, co-operation, agricultural improvement, and to give them some knowledge of the simpler home industries, in order that each man may, when his training is completed, act as "guide, philosopher, and friend" to the group of villages to which he is posted. In technical matters, his knowledge is meant to enable him to direct the villagers where to go for advice, rather than to give that advice himself. This is the type of link which the Commission would be glad to see established between the masses and the Government departments. This agency will be of great use in bringing Government departments and the masses into close touch with each other. It will facilitate the working of the officials of the Development Departments and will enable the masses to take the fullest advantage of the help offered by Government. Unless both the Government and the leaders of the public make a serious combined effort to lift up the masses on all sides, there will be no progress in the welfare and prosperity of the rural population in India.

---

# THE REPORT OF THE ROYAL COMMISSION ON AGRICULTURE: A PUNJAB POINT OF VIEW

BY

E. B. WAKEFIELD, I.C.S.,

*Punjab.*

There has been launched at the Report of the Royal Commission on Agriculture in India a considerable volume of harsh criticism; the harshness we believe to be due to the desire to make political capital out of any subject-matter which may affect, however remotely, the prestige of Government. Such criticism, being avowedly prejudiced, defeats its own ends, and any sympathetic criticism which the Report receives, however adverse, must be the more convincing.

The Commissioners, indeed, deserve sympathy. On the one hand they have been criticised for delegating so many technical questions to others for research: 'why, if its members were not experts, was the Commission ever appointed?' On the other hand, they have been criticised for interfering with too much minuteness in purely administrative details. On both counts the Commission must be acquitted; they may not be correct in all their conclusions, but in teaching them they have not spared themselves hard work; and the Report bears witness both to the broad view they have taken of their task and the scrupulous attention which they have paid to important details.

The first impression that the Report makes is one of horror at the creation of so many more official posts, so much more administrative machinery; and we wonder how long this self-expansion of bureaucracy can continue before an explosion takes

place. We look at each proposed addition separately; and on its individual merits we applaud it. But the cumulative effect is overwhelming; and our consolation is that it will be a long time before sufficient funds are available to make all the executive machinery contemplated by the Commission to be established. There is the further consolation that it is the more important proposals, particularly those connected with the formation of a Council of Agricultural Research, which will be the first to be carried out.

The Commission has not, however, fallen into the error of supposing that the necessary changes can only be brought about by official agency. On the contrary, it emphasizes continually the truth—it is nearly a platitude—that in the hands of the cultivator rests the fate of the cultivator. A wider outlook, an increased responsiveness to new ideas, an expanded sense of responsibility, all these qualities in the cultivator are essential if the work of research scientists is to bear fruit. If there were not signs of a growing willingness to learn on the part of the cultivator, all the apparatus of research laboratories, demonstration farms and agricultural colleges would involve an utterly unjustifiable burden on the country's revenue. In the Punjab there is certainly less opposition to what is new, merely because it is new, than there has been in the past. Statistics showing the amount of American cotton grown in the province are indisputable proof of this. But there remains the task of creating the channel through which the new ideas of the agricultural expert may pass into the still conservative mind of the cultivator. In the past there has been no really effective channel: occasional Deputy Commissioners have enforced less primitive methods of sanitation, less primitive methods of cultivation; here and there the advice of experts from the Agricultural College at Lyallpur has been followed, though, for the most part, by the bigger landlords only; and the only agency which has proved at all successful in bridging the gulf between expert and cultivator has been that of the various co-operative societies. It is in this connection particularly that

we believe the recommendations of the Commissioners to be most wise. They emphasize the importance of the second and rather neglected duty of the Agricultural Services—the duty of bringing before the cultivator new and improved methods of farming in such a way that those methods may be actually adopted in general practice. The means are, firstly, the more general use of demonstration plots in preference to demonstration farms; secondly, concentrated effort, for when a good practice is once established, it will spread with a speed in proportion to the extent of the benefits which are seen to accrue from it; thirdly, the use of practical, ocular demonstrations in preference to other forms of propaganda which depend for their success on a reading and intelligent public; fourthly, close and friendly co-operation with other departments such as the Irrigation and Veterinary services; lastly—and most important of all—intimate and continuous contact with the better farming societies and other associations which approximate in their character to the taluka development associations of Bombay. There are obvious drawbacks, founded on general political principle, to the use of purely official agencies as intermediaries between the expert and the cultivator; but such co-operation, as is above suggested, between the body of experts financed by Government and the more intelligent cultivators, cannot fail to be of lasting and increasing benefit.

It is impossible here to review the detailed proposals made by the Commission with respect to Forests, Live-stock, Rural Industries, etc. But it may be remarked that the progressive adoption of the compulsory system of Education, proposed by the Commissioners, is not everywhere desirable. In the Lyallpur District of the Punjab, for example, school accommodation is utterly inadequate for the number of voluntary pupils; the teachers are not always competent—and they are generally underpaid; and the demand for education is far in excess of what can be supplied. Moreover, there is the task of persuading literate pupils that there is no indignity in cultivating the land. At present there is an ever-increasing stream of literate sons of

cultivators who definitely refuse to return to their families and aid in the work at home. It would be an inane thing to increase this stream before previously directing it into the necessary channels; and we hope that the proposals of the Commission in this connection will not be applied without proper discrimination by either provincial or local authorities.

The task of the Commissioners, we take it, was to state the difficulties with which agricultural development in India was faced, and to suggest methods by which they might be overcome. Viewed from this point of view, the Report appears to contain both a broad and thoughtful estimate of actual conditions, and wise proposals for their improvement. It is only if we start with prejudices against the actual appointment of Royal Commissions, or if we expect the problems common to many countries and many ages to be solved in the twinkling of an eye—it is only then that we can be disappointed with the conclusions of this Commission.

---

# LABOUR AND THE AGRICULTURAL COMMISSION REPORT

BY

S. K. RUDRA, M.A. (CANTAB.),†

*Reader in Economics, Allahabad University.*

It is not fair that any comments be offered on just one chapter of the voluminous Report of the Royal Commission on Agriculture in India without reading the Report through, yet it has been felt worth while to do so. To pass judgment on the work of the Commission as a whole would require much longer study of the Report, as well as a thorough knowledge of the variety of subjects dealt with by the Commissioners, and as this is a task which only the exceptional student can perform, it may not be valueless to take up the Report in sections.

We are glad that the Commissioners did not overlook the problem of labour. Usually this word has come to denote workers in organised industries only. This is possibly due to the fact that the leadership in the study of Economics has come to us from the highly industrialised countries of the West, and to the fact that agricultural Labour is usually ill-educated, isolated, poorly organised and therefore inarticulate. In India to commit the mistake of regarding Labour as the body of men working in organised industries alone, to the exclusion of the workers in the fields, would be grave indeed. This mistake, however, is often made.

The two facts that emerge outstandingly in regard to the agricultural situation of the country are, first the great pressure



upon the soil and secondly the periodical slackness of employment, both of which combine to mitigate against the improvement of the lot of the agriculturist. The Report holds that the main solution of the trouble will lie in the diversification and improvement of agriculture itself, but they suggest other measures also, which are worthy of our attention.

Subject to the nature of the country and local conditions the Report suggests that in areas where there is heavy congestion, steps should be taken to draft a large portion of the population into industry or to help it to migrate to the sparsely populated portions within the country, or to assist it to emigrate abroad, especially to British Guiana. As to the question of periodical slackness of employment, which varies from two to four months in the year, they suggest the remedy of diverse occupations. These occupations they have classed into three groups. The first type consists of industries located in rural areas, such as sugar-refining factories, rice-husking, oil-crushing mills, cotton ginneries, saw mills and tobacco factories. These give employment to labourers when they have no work of their own to perform upon the fields. The second type consists of domestic industries such as weaving, gur-making, handhulling of rice, silk filatures, oil-crushing and the work of village artisans. And the third type consists of any kind of work in which the cultivator can sell his personal labour. In this connection we are glad to note that the Report corrects the common impression that a cultivator can find temporary employment when and as he likes in industries around him. Such a notion only reflects the ignorance of people who should know better the actual conditions of trade and industry in the country. The fact is that in all types of occupations a certain amount of skill is necessary without which it is not possible to secure employment or even command subsistence wages; and after all the possession of such skill is a matter of specialization, however elementary, and this we cannot expect our peasants in general to possess.

The Report, we think rightly, lays by great hopes in the useful employment of the spare time of the villager in the first type

of industries indicated above. We also feel that due to the technique in production involved in these industries and the difficulties involved in the costs of transportation of raw material, these industries will necessarily be dotted about all over the country instead of being centralized in a few far-away selected spots. Therefore they will be admirably fitted to dovetail into the periods of slackness in agricultural occupations and ensure regular employment throughout the seasons for an increasing number of the peasantry. Amongst the various industries suggested by witnesses under the first type, the Commissioners think that the manufacture of agricultural implements holds the greatest promise of useful development. We agree in this, but feel that nothing useful will result from the suggestion until the Agricultural Departments take up this matter in right earnest. Something is already being done on this line, and with success. But vigorous action and assistance is needed if it is desired, not only to fill up the spare time of the villager, but also to modernise agricultural methods in this country. All along it is the improved tool or implement or machine that pioneers the way to further progress in the conquest of Man over Nature. How ill-equipped our peasantry is in this battle for life! We are mechanizing our Army, why not the Peasantry?

With regard to the second type of industry, viz., the village and domestic industries, they hold that there is much scope for development. This development, they think, more than other things, lies in introducing new ideas, for instance in improved technique, in pattern and design, as well as in making new objects like telegraph insulators instead of turning out the traditional objects in a stereotyped fashion. But just here lies the great difficulty. These traditional methods of production can only be changed through *deliberate* introduction of new ideas. The lead in such matters can only be given either by the Government through its various Departments or by people dwelling in the cities who have the imagination and the necessary commercial insight to turn and train the skill of these village artisans in producing objects and articles that the newer needs of modern life demand. The village

artisan unassisted either in resources or in ideas is doomed to be crushed out of existence. The Government and the people have to plan out very clearly the line of action they wish to adopt in dealing with this matter to save the situation. Inaction and lack of foresight must end in the final disappearance of the great crafts and skill of rural India. We would here recommend the example of the Burma Government. The Burma Government have selected three village industries—Silk, Lac and Pottery—for their special attention and aid. The resources of all Governments being limited, a careful selection of a few rural industries for State-aid would appear to be the best plan to adopt. The Commission reveals the conditions of some of the village industries which must cause grave anxiety in the minds of those who have the welfare of the village-folk at heart. For instance, sericulture and Indian silk, if not protected in some form or other, will be seriously affected from competition from artificial silk from abroad. Some Provincial Governments, it must be admitted, are doing a great deal to help the peasants to improve the strains of silk worms and the treatment of cocoons. We strongly feel that this is a matter which should be examined by the Tariff Board. Every type of industry that gives subsidiary employment to the peasant must, we think, for economic and humanitarian reasons be examined into, and given assistance, if necessary. The peasant in India is about as depressed and pessimistic an individual as one could meet anywhere. Added to this it must be realized that he is weighed down with Debt and Ignorance. We plead that whatever the common notion about State interference with private industry elsewhere, it cannot be accepted as a guide in the solution of our rural problem. Active State action is what we would urge in our rural affairs. Take for instance the example of Lac production in this country. We have a practical monopoly in this product, barring synthetic lac. We cannot say that Government have adopted a wise and energetic policy in husbanding this industry. It holds great promise for the peasant and would be an incidental

source of revenue for the Government. The constitution of the Indian Lac Association for Research, and especially the Managing Committee clearly shows that Government have not given adequate attention to this important industry to say the very least. We endorse the recommendations made by the Commission in regard to the re-constitution of the Association, and would go beyond what they say and require that the *growers* themselves must have some representation on the Association. The Calcutta merchants cannot be trusted or permitted to manipulate the fortunes of this industry any longer. This is a matter which calls for immediate enquiry.

Poultry-farming, and to some extent Fruit and Vegetable growing are suggested as helpful occupations for the peasants to adopt as subsidiary occupations.

With regard to the third type of work providing employment to peasant labour in the growth of demand for labour in factories and cities it is held that as the relations of industry and agriculture grow closer, such opportunities of finding employment during the slack season on land will increase, and thereby improve matters. This is true, but will be a slow process indeed. We would suggest that Provincial Governments, Local Boards and Municipalities and other bodies, should consider the question of seasonal fluctuations in giving out their contracts for works involving demand for Labour so as to coincide helpfully with the slack seasons in rural areas.

While the above remedies have been suggested by the Commission in solving the problems of seasonal unemployment of the peasantry, they feel that the absorption of the growing superfluity of agricultural labour can only take place by greater mobility both within and without the country. In this manner alone can the heavy pressure upon the soil in certain areas be relieved. The problem is therefore resolvable into two—one the question of mobility and the other the places to which surplus agricultural populations may move, either in India or abroad. With regard to the first the Commission think it is not Government interference, ex-

cept in a very limited extent under the Assam Labour Emigration Act, nor the removal of political difficulties in emigration abroad, nor the lack of the means of communications, except in local areas, that act as serious hindrances to mobility. They think that far more serious obstacles to this mobility come from inherited rights in land, of indebtedness, of ill-health, of racial peculiarities, all of which contribute in making labour more stationary than is warranted by economic conditions. They feel that these conditions should be investigated and definite schemes of colonization be launched. It would appear that the Burma Co-operative Department scheme in this matter is worthy of adoption. As to the second point, namely the regions to which surplus populations may be sent, we know that in the country itself there are various schemes afoot which will throw open new areas or thinly inhabited areas for colonization. The Sukkur Barrage scheme is an instance in point. As against this there are, of course, areas as in Bengal, the Central Provinces and the Punjab, where land has gone out of cultivation due to malaria, the growth of weeds or spread of alkali, but these are not comparable to the new areas coming into cultivation in extent and area. As to places abroad, it seems that in Ceylon the point of saturation in absorbing Indian Labour has almost been reached. While the absorption that can be expected from British Malaya, West Indies and Fiji, cannot be large, and in Mauritius further immigrants are definitely not needed. The only other area within the British Empire that really offers a great field for emigration is British Guiana. That country has great possibilities, and it awaits development. There the supply of capital is not the limiting factor, it is Labour. A scheme of emigration to this country has been approved, only it seems not profitable enough for the planters to operate it. We trust, however, that the matter will not remain here, but be further considered.

In conclusion we can only say that the Commission has given this problem of Peasant Labour a comprehensive examination. They have clearly shown the way of giving relief to the two great problems facing the peasants, namely, lack of continued employ-

'ment and the growing pressure upon the soil. We trust the necessary steps will be taken as soon as practicable to put the findings of these investigations into working schemes. If Government give the lead, we are not so despondent as to believe that those of the public who have the means to follow their example will hold back. State action however is the necessary preliminary condition in this movement towards rural regeneration. We trust it will not be long delayed upon its way, for through it lies the path to health and happiness for the peasantry of this land.

---

## NOTES

Dr. James Bonar has laid economists under another debt by his cataloguing of the library that belonged to Malthus. This work he recently arranged and it has revealed one point of great interest to us, viz., the discovery among the books of the writings of James Anderson who was the first to expound the Ricardian theory of rent, a theory that was forgotten until it was brought into prominence by Malthus, West, and Ricardo. "In 1815," writes Ricardo in his preface to the 'Principles of Political Economy and Taxation,' "Mr. Malthus, in his 'Inquiry into the Nature and Progress of Rent' and a fellow of University College, Oxford (*i.e.*, West, Chief Justice of Bombay), in his 'Essay on the Application of Capital to Land' presented to the world, nearly at the same moment, the true doctrine of rent." Bonar has found that Malthus had in his library Anderson's 'Essential Principles of the Wealth of Nations,' 1797, and Anderson's 'Scarcity of Grain in Britain,' December, 1800 (2nd Edition 1801). The latter bears the inscription 'Dr. Malthus from the Author.' There is also Lord Cairns' 'General Plan of a Lease' with remarks by Anderson (without date). There are many of us who were of opinion that Malthus must have read Anderson, one of the most hard-headed Scots of his generation. Now, thanks to Bonar, we know this to have been a fact. The author of 'Malthus and his Work,' 'Ricardo's Letters to Malthus,' 'Ricardo's Letters to Trower' (with Professor Hollander), 'Philosophy and Political Economy,' and the 'Catalogue of Adam Smith's Library' has already perhaps done more than any other living Economist to emphasize the great heritage that we possess today—the school of the English classical Economists of the first part of the nineteenth century, what Professor Allyn Young in his inaugural lecture in London University recently termed "that extraordinary

intellectual structure." It is interesting to note that Dr. Bonar, although seventy-six in September this year, has agreed to deliver the next Newmarch lectures on 'Theories of Population in the 17th and 18th Centuries.' The vitality of the man is an inspiration to those of us who belong to a younger generation.

---

Professor Allyn Young, the Harvard Professor, who was appointed to the chair of Political Economy in the University of London last year, has been appointed President of the Statistics and Economic Section of this year's British Association. Professor Young's lecture on English Political Economy published in 'Economica' in March, 1928, was sane and cautious. What was Harvard's loss by Professor Young's transfer has been London's gain. He referred to Professor Cannan thus: "The distinguished Economist who was my predecessor in this chair has made clear how the economic problems which confronted Britain in consequence of the Napoleonic wars did much to determine the form which economic theories took in the early part of the nineteenth century. The renewed interest lately observable almost everywhere in the study of the economic writings of that period has been prompted, of course, by an interest in modern problems, again the heritage of war, which are curiously like the problems with which those earlier writings dealt."

---

The Political Economy Club founded in 1821 by Tooke, Ricardo, James Mill and Malthus discussed at a meeting at Gatti's Restaurant, Strand, on May 2, the question "What have been the reasons for, and what are likely to be the consequences of, the abolition of the restrictions on rubber?" The discussion took place in accordance with the traditions of this exclusive club after dinner, and guests were invited to speak. Among those who spoke were Professor Macgregor of Oxford, Professor Allyn Young of London, Professor Gregory of the London School of



Economics, Mr. Hartley Withers, Mr. O. R. Hobson, and an Economist in the chair from India. The latter showed from statistics and from the experience of the control of wheat, jute, and hides in India in war-time, how futile it was for the British Government ever to have attempted to control rubber production when the Dutch East Indies stood out of the scheme. The scheme was ill-conceived and the rubber industry as a whole will be sturdier, stronger, and more stable if allowed to manage its own affairs.

---

On April 17 at a meeting of the Royal Statistical Society a paper was read on the censuses of population and vital statistics prepared by the various Governments of the world. The discussion was more interesting perhaps than the paper, and was taken part in by the Registrar-General, Dr. Greenwood (whose recent F.R.S. will be welcomed by all statisticians), Sir Bernard Mallet, Dr. Stevenson, and by a Professor from India. The subject is indeed a vast one, but the reader of the paper, a member of the League of Nations staff which prepares much valuable data on economic and financial questions, failed to bring out the main principles of census-taking, but this was more than rectified by the speakers who remembered Adam Smith's conception of philosophy as they were looking for "connecting principles." After the meeting the Statistical Club, a club confined to 40 statisticians of eminence in the world of statistics, met as usual at dinner at the Regent Palace. This is one of the most delightful of meetings in London. The discussion was of much interest, The Rt. Hon. Viscount D' Abernon, P.C., G.C.M.G., late Ambassador at Berlin, was, as President of the Royal Statistical Society, in the chair.

---

Financial questions since the last issue of the journal have been of first class importance in many countries. In England the question of the paper currency has been discussed in

Parliament in connexion with the Currency and Bank Notes Bill. Local taxation has again been put under the closest scrutiny in the new reforms for rates, the legislation for which is in part before Parliament. To students of currency and finance these matters are of no ordinary importance. France has at last stabilized the franc, and now that Poincaré has taken the plunge, we see that the Brussels and Genoa Conferences have resulted in the currencies of leading countries being linked to a common basis of value. In 1922 the Genoa Conference was held. In 1923 Austria's currency was linked to gold; in 1924 Germany, Sweden, and Russia followed her example; in 1925 Great Britain, South Africa, Holland, Switzerland, Hungary and Finland followed suit. In 1926 Belgium, and in 1927 Italy, Denmark and Poland stabilized their currencies. In 1928 Græce, Norway, and France have completed the process. The question of gold has also been of very much interest and the future outlook from the point of world prices compels attention. To each of these questions we must revert. It is interesting in connexion with the stabilization of currencies that ten years after the war the international trade of Europe has recovered to about the pre-war level. There has generally been a suspension of progress for a decade and a half. We are starting today where we were 15 years ago. Economic policy must be directed to an expansion of world trade and production, if there is to be any rise in the standard of living.

Firstly with regard to the Currency and Bank Notes Bill. The whole essence of this Bill was the recognition of the vital importance of providing a country with an adequate volume of currency and of maintaining its value stable. The Bank of England takes over the paper currency and this is in keeping with the functions of a Central Bank. The Bank should have a monopoly of the note issue. The chief principle of the amalgamation of the Bank's issue and the Treasury Notes issued since 1914 is the establishment of central control over the note issue. Currency and credit are so largely inter-dependent that the Bank of England which controls the latter will now also control

the former. This has the sanction of the wisecrackers of 1844, the Federal Reserve Act, and the Brussels Conference of 1920, not to mention the Genoa Conference of 1922. "We must" says all this authority, "fortify the machine that turns out currency and credit against any influence on the part of the State in relation to inflation which brings in all countries misery to the middle classes including wage-earners." The fiduciary limit of the amalgamated issue is fixed at £260 millions. The Treasury has been given the power to reduce the fiduciary issue if requested to do so by the Bank. The Treasury may also authorise the Bank to issue notes above the fiduciary issue of £260 millions, if the Bank at any time represents to the Treasury to do so. This can be done for a period of six months at a time and up to two years, unless Parliament otherwise directs. The actual wording of this sub-clause of the Bill is, "No such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines." It is also provided under this same clause—the famous clause eight—that "any minute of the Treasury authorising an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament."

The Bill to all intents and purposes leaves the *status quo* unchanged. The currency note is today practically a Bank of England issue and all the Bill does is to give legal effect to what had already been done by administrative action. The figure fixed for the fiduciary issue is the approximate total of the legal amount of the present separate issues. Mr. J. M. Keynes in the "Times" and in the June issue of the Economic Journal and members of the Labour Party in the House of Commons desired a higher fiduciary issue. Mr. Keynes' view that things have changed since 1844 and it is unnecessary to lock up as a backing to the note issue a large amount of gold which is sterile has at first blush much to commend it. Mr. Keynes, however, does not realize that to the ordinary person the gold backing to

## MEMORANDA

the note has a very powerful effect to the whole credit structure. One cannot help feeling that those who argue that the Bill should provide for the creation of more currency and credit in order to make trade more active and employment more easy are inflationists. Inflation would only temporarily help trade as neither currency nor credit is the same as wealth. The prosperity of England lies in its ability to produce and sell goods competitively at a profit. Inflation would result in high prices and would prevent the selling of goods at a profit. An increase in the credit structure is, of course, justified only by a corresponding increase in real resources. The Bank of England may, it is interesting to note, hold commercial bills as cover for the notes. It is to be hoped that these, in so far as they are foreign bills, should be those one of a gold standard country.

---

On July 18 the House of Commons passed by 326 votes to 128 the third reading of the Rating and Valuation Apportionment Bill. The rating scheme will come into force in 18 months' time. Agriculture and industry, docks, railways and canals will be relieved of a large proportion of local taxation. The central government will provide money for the proposals, mainly by means of an increased petrol tax. The Report of the Balfour Committee on Industry and Trade has shown how heavy local taxation is on industry. The cost, for example, of rates per ton of crucible steel on actual output was on June 30, 1914, 3s. per ton and on June 30, 1924, 21s. per ton. The cost per ton, if working full capacity, on June 30, 1924, is 6s. 8d. per ton. Instances could be multiplied. The greater the difficulties of trade, the heavier the burden per unit of output. The Government propose to introduce in the autumn another Bill which will complete the scheme. The present Bill gives exemption to certain industries. The remaining Bill will give the details of the lightening of the burden to each industry and an opportunity will be taken to make the long-overdue improvements in the British system of local taxation.

With the passing of the French Stabilization Bill on June 25, the last vestiges of the old theoretical bimetallism have passed away and the battle of the franc is over. The French have adopted a gold bullion standard, although the possibility of a full gold standard with a gold circulation at some future date is not ruled out. The franc is fixed at 65.5 milligrams of gold 900 fine, which gives a par of exchange with the pound of 124.21 francs. The Bank of France undertakes to buy gold at this rate and to convert its notes into gold either in legal gold currency or in gold bullion. The convertibility will be limited to minimum quantities agreed upon by the Bank and the Finance Minister. The reserve is fixed at 35 per cent of the notes *and* sight deposits. The gold reserve which amounts to 5,500 million francs (£220 millions) will be revalued and the resulting surplus will be used to pay back to the Bank the advances made to the Treasury. The franc now being on a gold basis will possess stability. The Bill, it may be noted, provides for the introduction of a new coinage, a 100-franc gold piece and silver token coins of ten and twenty francs. The date of the issue of gold coins to the public will be fixed later by Government decree. The whole question of French Finance was discussed in a recent issue of the journal. The Government of France has overcome unbalanced budgets and the difficulties of large unfloating debts with a certitude and ability beyond praise. The stabilization has been in two stages. One stage, the actual stage, has already been completed. The other stage, the legal stage has now begun. It is probable that some rise in prices will take place. The present price-level in France is still below the world price-level of gold prices. Stabilization is not unusually followed by economic troubles, but the probable rise in prices should be somewhat of a stimulus to industry.

---

The Council of the League of Nations has authorised the Finance Committee of the League to examine the gold problem

in its relation to prices and the means to be taken, if any, to ensure stability in the value of gold. The Committee is "to consider to what extent and in what way the League, whose efforts have necessarily been concentrated hitherto on a contribution to the first stage of the world's post-war monetary problem, could now most usefully assist in the study and solution of the problem in the second stage." This is a Herculean task but one certainly worth undertaking.

G. F. S.

---

The dominant note in the industrial situation in India is one of serious restlessness. Labour troubles have thrown some of our leading industries out of gear, and prolonged strikes and lockouts are the order of the day. The industrial atmosphere is tense with threats of trouble all round, and the country is passing through times such as have been but seldom experienced in the past. The present unrest is largely due to the severe depression through which the national industries are passing. Prices of commodities have gone down and the offtake of the industrial output is slow. The cost of production has not shown a corresponding tendency towards diminution, and factories have to be run at little or no profit. Some industries have had to be run actually at a loss. One of the remedies contemplated by the employers to meet the situation is the cutting down of the labour force and the reduction of the wages bill. The prospect of being thrown out of work at a time when general unemployment stalks the land, is naturally very disturbing to the mind of employees, and organized labour may be expected to resist attempts at the reduction of the scale of wages. Indian labour has unexpectedly exhibited greater powers of patient and organized opposition, thanks to intelligent and determined leadership, a growing sense of strength among the workers and the increasing influence of the labour movement abroad. The rights and the wrongs of the different disputes can be judged only after a careful examination of the merits of each

case. But an analysis of the situation reveals certain general features which are calculated to give one a clear insight into the causes that have brought about the unhappy result. So far as the organized industries in India are concerned, we are now face to face with the same difficult problems as are associated with the capitalist form of economic society, and the solutions cannot be far different from those attempted in those countries where similar conditions prevail.

---

"India in 1926-27" has some interesting remarks on the working of municipal and local self-government in this country during the past few years. Municipal government in India, it is well-known, occupies a small place in the life of the people. The bulk of the population lives in villages and is interested in problems of rural importance. In 1925-26, there were 767 municipalities in British India with nearly 19,000,000 residents within their limits and an aggregate income of Rs. 1620 crores. In the same year, district boards, sub-district boards, and union committees combined, numbered 1,269, and the receipts of these institutions aggregated a little over Rs. 14 crores. Since the introduction of the Reforms, important changes have taken place in the constitution and working of all these bodies. The popular element has been strengthened and greater public interest has been evinced in municipal and local affairs. The democratisation of these bodies has brought with it certain inevitable evils. Communal and factious disputes, laxity in administration due to inexperience and lack of unselfish devotion to public duty have marred the smooth and efficient conduct of affairs. Provincial Governments have exposed these evils and called pointed attention to irregularities noticeable in the working of the municipalities and local boards. Such regrettable instances have been quoted in "India in 1926-27," and the light and the shade in the picture presented there ought to make one pause and think. One of the greatest difficulties of these bodies has been the financial

one, and the following extract sums up the position:—"Both municipal and district board activities were handicapped not a little by the financial stringency of the early years of the Reforms. In addition to the shortness of funds and the general high level of prices, they were called upon, with the withdrawal of official control, to meet extra expenditure on services which used formerly to be rendered gratis by government servants belonging to other spheres. They naturally endeavoured to economise, but their efforts only led to a lowering of efficiency. The provincial governments have themselves been in no satisfactory financial condition, and the local bodies which looked to them for assistance in carrying out works of development, could receive no adequate response, and additional taxation has had to be reluctantly resorted to in several cases."

V. G. K.

---

## LABOUR

We heartily congratulate the Railway Board for creating a new post and appointing an officer who is to be known as the Sports Officer of the Indian State Railways, Publicity Department. This is a step in the right direction, and if followed up with further appointments and assistance in funds and equipment over the entire State Railway system in India, it would be a remarkable achievement, and worthy of great praise. Incidentally it would help not a little to brighten up the life of the employees—especially the subordinate Indian staff—and make for a happier understanding.

We congratulate Mr. P. C. Roy on his appointment, and trust he will utilize this unique opportunity with much success. Mr. Roy is a boxing Blue of Cambridge University.

---

Mr. N. M. Joshi has defended his acceptance of the gift of money from Russia on the grounds that in the first instance the



gift was sent unasked, that gifts of money from the same source have been accepted by persons responsible for operating the Gujrat Relief Funds, and that it would be perfectly all right if the money so received were not utilized for the furtherance of rioting and bloodshed. Dr. Besant, who had at one time to do a great deal in leading Labour, holds that this money "disgraces anybody who touches it." As a token of the Russian workers' sympathy with the workers in India in their struggle, the gift should undoubtedly be accepted with gratitude, but if ulterior motives lie behind the gift, heavy responsibility rests with those who accept the gift. We are also quite clear that a gift for the relief of sufferers from visitations like floods and famines is not the same as those suffering from the consequences of an industrial dispute.

We know that Indian Trade Union is one of the poorest organisations financially. Money is greatly needed for its various highly essential and commendable activities, but this should make the Trade Union officials all the more vigilant in accepting gifts. That fine, sturdy, and self-respecting independence which we are certain the leaders wish to create amongst their men cannot be attained without financial independence: this in the last analysis is the corner-stone of the entire Trade Union edifice.

---

We are sad to note the evidences of communal friction amongst labourers in organised industry. Labour as such has innumerable serious difficulties to contend with here, but if this *virus* of communalism enters the Labour system, there will remain little hope of working up in this country a healthy and vigorous Labour body. However things may be conducted in Politics, it is earnestly hoped that leaders will see to it that no lodgment whatsoever is given to this scourge of communal strife within the affairs of labour.

---

Dr. Chandler, who has been working for the last three years at the Calcutta School of Tropical Medicine under the grant for

the Indian Jute Mill Association, has published the results of his researches on Hook-worm infection in India. Employers of labour, and others, who dwell in the regions which Dr. Chandler mentions as having high index of infection, would do well to pay heed to his findings.

It is reassuring to learn from his researches that in spite of a very high incidence of infection in some parts of the country, hook-worm disease is non-existent in most places. In a very few localities, for instance some places in Burma, and on some Darjeeling and Dooars tea estates, the index of infection exceeds 400. In the West Indies and Alabama it is 600 and 500 respectively.

In Burma the infection rate is highest amongst the Indian immigrants. The Burmans have adopted the use of latrines and this helps to keep the rate of infection amongst them low. The general figure for the province is from 108 to 176.

In Assam in the tea gardens the conditions are not good; this is due to the universal habit of defecating among the tea bushes where conditions are very favourable to the larvæ. The index for the Upper Brahmaputra Valley is from 200 to 300, and for the Surma Valley about 300. The hill tribes are nearly free from infection.

In Bengal the general figure is 80 per cent, but in the tea garden area it is as high as 400, which is a matter of serious consideration.

The entire north-western part of India is practically free from hook-worm.

In the Madras Presidency some parts like the Western Ghats, Coorg, Malabar and Southern Travancore are as bad as the Assam and Bengal tea gardens, but other parts are freer and some absolutely free.

According to occupations sweepers and sewage coolies are apt to get the infection, but in mild form. But tea garden coolies are especially prone to it. Coal-miners also, exposed as they are to soil pollution in the underground galleries, catch the

infection. The wearing of foot-gear of any type is an effective protective. It would be interesting to investigate whether it would not prove economical, in the long run, for the collieries and tea gardens to give foot-wear or subsidize their employees towards buying it for themselves and thus avoid the waste of absence and irregularity due to sickness or low productivity caused by ill-health due to hook-worm.

Domestic animals such as dogs, but specially the pig, also spread infection. But cockroaches prevent it and their presence in the coal-mines is certainly responsible for keeping the infection down. The dung-beetles on the other hand are a powerful factor in the development of hook-worm larvæ.

The character of the soil is also an important factor. Clay and black soils are unfavourable, while sandy and porous soils are favourable towards dissemination of the disease. Artificial irrigation is not a factor in the spread as it was supposed it was; this is a vital discovery of great value.

---

It was cheerful to read the accounts of the return of the 971 emigrants from Fiji per s. s. *Sutlej*. They gave a happy account of their sojourn abroad, and seemed to have done well. Amongst the returned emigrants was the Hon. Mr. Badri Maharaj who had emigrated from Garhwal in 1890. He owns a sugar plantation of his own, and represented the Indian community in the Fiji Legislative Assembly. He is here on a visit only, and will return back to Fiji.

He is reported to have said: "Fiji is an ideal country to live in; the climate is perfect and the land fertile. Indians are practically free agents. Although we have only one representative in the Legislative Assembly at present, there is a move to let us have three in future."

There are about 61,000 Indians in Fiji, 5,000 Europeans and about 100,000 Fiji-islanders. Land is rented leasehold to suitable applicants by the Colonial Sugar Refining Company.

We are pleased to learn that the Railway Board have agreed to appoint, on the recommendation of the Agent of the G.I.P. Railway, a Special Officer to whom the staff could personally present their grievances. If this experiment proves successful, similar appointments will probably be made in the workshops of the other railways in India. The success of the experiment, obviously, will greatly depend upon the personality and ability of the officer selected to this new post. We trust, therefore, that a wise selection will be made, since on this selection will depend greatly the future development of this scheme, which we cannot help feeling, seems useful and desirable.

---

We understand that steps are being taken to reorganise and strengthen the Labour Department of the Madras Government.

---

The International Textile Workers' Congress, assembled at Ghent, unanimously adopted the British motion, to render assistance to the Indian strikers. The Congress received delegates from twelve countries and represented a million workers.

The International Transport Workers' Federation, Amsterdam, as well as the International Federation of Trade Unions, Amsterdam, have sent donations to the strikers here.

---

The International Textile Workers' Congress, meeting at Ghent, have unanimously passed a resolution in favour of a universal eight-hour day, and the abolition of gang work. They have also demanded an enquiry into the conditions of textile workers.

The Congress have also empowered its Bureau to settle with the Trade Unions in India the question of their affiliation.

---

Both Mr. C. F. Andrews, President, All-India Trade Union Congress, and Mr. N. M. Joshi, Secretary of the same body, have expressed their general approval with regard to the views

published by Mr. Purcell and Mr. Hallsworth regarding Indian labour conditions. They accept the idea of closer co-operation with the British Trade Union Organisation and feel that much benefit will accrue by such co-operation. Mr. Andrews feels that the matter should be given careful consideration by a Union executive in both countries. We trust this suggestion will fructify, as it holds within it the promise of betterment and increasing good-will between the labouring folk of these two countries, Britain and India.

Mr. W. H. Pease, Secretary of the Indian Tea Association, has refuted, in a letter to the Trade Union Council of Great Britain, the allegations made by Messrs. Purcell and Hallsworth in their Report against the conditions and treatment of labourers in the Assam Tea plantations, and has asked the Council what steps it proposes to take to correct the mistakes made by the Trade Union Delegates to India.

---

The Eleventh General Conference of the International Labour Organisation opened on the 30th May, 1928, at Geneva. 42 out of 55 affiliated States were represented at the Conference. Senor Saavedra Lames, head of the Argentine delegation, was elected President of the Conference.

The question of the prevention of industrial accidents was debated at the International Labour Conference.

Mr. Graham (Indian Railways) said that, due to the high accident rate in connection with the coupling and uncoupling of the vehicles, the Government had decided to adopt the automatic centre-buffer couple.

Mr. Bose, of the Indian Colliery Employees' Association, said that 80 per cent of the accidents in India were due to defects in mines and a lack of supervision and proper safety appliances.

The International Labour Conference has finally adopted the convention on Minimum wage-fixing machinery by 76 votes to 21. The Employers' delegates desired that the wage-fixing machinery should be confined to unorganized home industries,

The Government delegates from India abstained from voting on the Draft Convention on the minimum wage-fixing machinery. Mr. Morarjee, the Indian Employers' delegate, voted against the convention.

---

We extend our hearty congratulations to Dr. Radha Kamal Mukerjee on his being invited by the Central Bank of India to survey and report on the economic condition of the various districts in the Madras Presidency. We are proud that a teacher has been selected and that his merits as a research worker have been appreciated in this manner by the hard-headed men of business! We hope that this is the beginning of a new development in the industrial and commercial affairs of this country. A closer co-operation between the economists and the practical men of business must be to the advantage of both and to the general good of the country at large. We drew attention to such development as being almost imperative, while reviewing Professor Thomas' Inaugural Lecture delivered at the Madras University in the last issue of this Journal. It is a matter of great satisfaction that in this issue of the Journal we should have the pleasure to record the fact of Dr. Mukerjee's selection by the Central Bank of India.

We need hardly say that we applaud the decision of the Central Bank and admire them for their courage in taking this step to bridge the gulf that exists in this country, only too markedly, between the professing economist and the practical men of business. We trust their good example will be followed by other concerns.

---

The Travancore Unemployment Committee have finished their labours. They have not as yet submitted their Report but it is understood that by way of relief grants of land varying from 5 to 20 acres and agricultural loans ranging from Rs. 250 to Rs. 1,000 have been suggested by it.

---

We extend our cordial congratulations to Mr. M. N. Joshi for being placed upon the Governing Body of the International Labour Office. It is a great honour, and no one deserves it better than he, because of his years of untiring and selfless devotion to the cause of Labour in India. The new Governing Body will be in office for the next three years.

---

We are pleased to record that the International Radio Telegraph Conference have decided to require only a six months' training at sea as sufficient in the case of Indians who wish to qualify as Certificated Operators on mobile stations. This is a clear concession as compared with the length of training required of other nationals. This concession was granted because it was the Indian delegates impressed on the Conference that Indians had very great difficulties in obtaining such prolonged training at sea. We sincerely hope that the Conference will use its powerful influence to make such training facilities more easily available to Indians. We cannot stand to approve of lower qualifications for Indians, except as a very temporary measure. We would strongly urge for wider opportunities for the youth of the country in this very vital service. We therefore trust that this matter will be considered at the next meeting of the International Telegraph Conference which is to meet at Brussels this September.

---

By a decree all Chambers of Commerce in the Provincial cities in Italy have been superseded by Provincial Councils. The President of each will be a Prefect appointed by the Ministers of the Interior and Commerce. Most of the members will be nominated by workmen's and employers' organisations. The idea is to secure comprehensive unity of action in dealing with the problems of agriculture, industry, commerce and other matters affecting labour.

---

We are happy to note that the lightning strike at the Elgin Mills at Cawnpore was brought to an end on the 18th June, 1928.

Much credit for this is due to the Management of the Mill and the officials of the *Mazdoor Sabha*. Amongst the various matters that were settled, we are pleased to note that on the one hand the *Mazdoor Sabha* guarantee that they will neither permit nor countenance a future strike without giving 15 days' notice, and on the other hand the Company recognize the right of the *Mazdoor Sabha* to represent the grievances of the workers employed in the Mill. We deplore strikes and lock-outs, but deprecate most unreservedly lightning strikes, and peremptory lock-outs, and therefore heartily welcome the solution arrived at Cawnpore. We trust mutual good-will and confidence will prevail, and that the difficult problems of the adjustment of Labour needs to the changing fortunes of Industry will be settled by careful negotiation rather than by the crude and unscientific tactics of strikes and lock-outs.

---

Mr. N. M. Joshi has urged the Government of Bihar and Orissa to intervene in the Labour Dispute at Jamshedpur on the special grounds that since the Tata Company receive financial help from the State they have a moral right to do so.

---

The matter of the importation and production of imitation tea has received considerable attention in the Press as it rightly deserves. Mr. J. Harper, Commissioner for India, Indian Tea Cess Committee, has well analysed the situation and has put in a strong plea for State intervention in the matter. The tea-drinking habit is spreading rapidly in the country, and particularly so in the big cities, industrial centres and in the Indian Army. The evil effects of heavy tea-drinking and of the imitation type particularly cannot be exaggerated. Government should move in the matter in spite of their answers they gave to Sir Darcy Lindsay in the Legislative Assembly on March 25, 1927. Not only in this matter of Tea, but in the matter of other necessities of life like flour—we hear of synthetic flour, ghee, etc.—the poor, illiterate



consumer must be protected. The Government of Bengal have set a standard in the matter of tea. Other Provinces should follow its example. The Central Government cannot so easily disclaim its responsibility in such matters by merely saying that legislation on these matters lies within the powers of the Provincial Governments only. In these days of rapid communication and expanding trade and commerce between the Provinces, it seems to us that apart from local adjustments, there should be All-India legislation in regard to the staple food-stuffs and drugs. The health and well-being of the millions of the poor of the country is at stake. Energetic steps are required to control the situation and not the evasion or postponement of the question. This matter of Tea, we are glad to note, is being taken up by Government.

---

Mr. N. M. Joshi is desiring, by means of legislation, to secure the same protection for non-registered Trade Unions as is granted to the registered Trade Unions under the Trade Unions Act of 1926. Whatever be the merits of his Bill, we cannot help feeling that it would be best to wait yet awhile in this direction. Trade Unions, or their officials and members, have not yet gained that stability, cohesiveness and experience that is to be found in some countries in the West. More experience is needed to know what type of Trade Union movement is going to develop in this country before we can safely proceed with further legislation in this direction.

---

Within little over three months there has been a second strike—or at least a partial strike—by the Sweepers of Calcutta. Whatever be the merits of the causes that have led to this situation, there can be no doubt left in the minds of those that hesitated before that in such vital public utility services as the Sanitary Service there must be set up some machinery which will prevent breaking out of sudden strikes. Apart from the severe inconvenience caused

to the public—which in most cases is quite innocent of the causes that lead to such troubles and are helpless in their redress—there is serious danger of outbreak of epidemics which would endanger the lives of thousands. The exploitation of the sweepers and other employees is not condoned, but neither can the exploitation of the public by the strikers be justified as a means of the solution of the trouble.

The Sweepers' Strike in Calcutta, ended on the 5th July, 1928. The terms agreed upon seem fair though the grant of strike pay seems absolutely unjustifiable. But no agreement seems to have been arrived at between the disputant parties that such strikes will not be sanctioned until a full discussion has taken place or the matter sent up for arbitration or conciliation. With such essential services as the scavengers perform the setting up of some such machinery is imperative.

---

While in India strikes and lock-outs are occurring with painful frequency, and feelings between the employers and employees are being embittered, in Great Britain, the home of modern industrial system and trade unionism, steps are being taken to bring about peace in industry. Through long and very disappointed and sad experience the employers and employees in almost all sections of industry have come to realize that the strike or the lock-out method is not the way to solve the difficult and highly intricate problems of Labour and Industry. They are beginning to realise that it is only by joint conference and representative consultation together that any satisfactory solution can be evolved of the highly complex and delicate problems of modern industry. On the Railways, where some of the best examples of Trade Union organisation are to be found, this Peace in Industry movement first originated, and since then other groups of industries have taken it up till at last the General Council of the Trade Union Congress itself has taken up the matter in right earnest with some of the employers' group. As a result of this action the Report of the

Industrial Committee appointed to find out ways and means of establishing peace has been accepted by the Council of the Congress. The Joint-Committee, more commonly known as the Turner-Mond Conference, after six months of discussion have been successful in issuing a Report which covers a very wide range of matter. These conversations first began personally and informally, but then they had official recognition in so far as it had representatives of the Trade Union Congress and the Heads of the great industrial undertakings led by Sir Alfred Mond, now Lord Melchett.

The Committee consisted of 50 members. They have set down six resolutions, and if these are accepted by the Congress and by the Confederation of Employers' Associations and the Federation of British Industries, it will mean a great move forward in the conduct of British Industry and the relationship between Labour and Capital. The most important is the one regarding the immediate establishment of a National Industrial Council. This will not be altogether a new experiment as such a body did exist and function during the War under Mr. Lloyd George's government. The representatives on the National Industrial Council will be nominated on the one side by the National Federation of Employers' Organisation and the Federation of British Industries and on the other by the General Council of the Trade Unions' Congress.

One of the functions of the Industrial Council will be to establish Conciliation Boards to investigate any trade disputes referred to them by parties before a lock-out or a strike is declared. The entire machinery is to be on a voluntary basis, there is no State compulsion involved.

The three main functions of the Council will be, if approved, to hold regular quarterly meetings for general consultation on the widest questions concerning industry and industrial progress, to establish a Standing Joint Committee for the appointment of Conciliation Boards, and to establish and direct machinery for

continuous investigation into industrial problems. We trust the Report of the Committee will receive sanction from both sides and thus usher in a new era of peace in Industry and bring increased prosperity to the peoples of the British Isles.

We are glad to learn that at the Sixteenth Trade Union Congress in September next at Swansea the Mond-Turner Conference Report will form the principal subject of discussion.

---

We welcome the announcement of the Government of India relating to the exclusion of women working under-ground in mines. Such a move was long overdue. The measure is characteristically cautious in its prohibitions, so that it will not be till the 1st April, 1929, that women will have entirely disappeared from workings below ground. But taking all factors into consideration it is probably wisest to go slow. In the main coalfields (*viz.*, Bengal, Bihar and Orissa and the Central Provinces), and the Punjab Salt mines, as a special consideration it has been provided that the number of women employed from April 1, 1929, should not exceed the average number employed in 1926, and thereafter there would be a 10 p.c. reduction annually. As to other mines, women will be prohibited from working under-ground from April 1, 1929. These regulations will not apply to quarries or to open workings. We wish that the rate of reduction were put at a higher figure, say 25 p.c. For we feel that when the owners realize that the elimination of women labour from under-ground workings is inevitable, they will make all the necessary adjustments to meet the situation and will for their own peace wish to reduce the length of the transition period. Government have promised to consider suggestions to these regulations received before the 1st October, 1928.

---

The strike at Sholapur Mills has also ended, certain concessions being made by the Management.

---

The Third British Commonwealth Labour Conference opened on the 2nd July, 1928, in London. Delegates representing industrial and political Labour movements in the various parts of the British Empire were present. The subjects discussed were Migration, State-trading within the Empire, and Inter-communal political relations. Mr. Ramsay MacDonald presided at the opening session.

Diwan Chaman Lal caused a great sensation by withdrawing, along with other Indian delegates, from the British Commonwealth Labour Conference on the matter of the Simon Commission. It would appear that due to technical reasons the resolution which the Diwan wished to move regarding the Simon Commission could not be permitted. If this be the case, the Indian Delegation, we think, should not have withdrawn however great may have been their resentment at the decision. But the subject of the Simon Commission, in spite of being definitely political could not, as one would imagine, be precluded from this Labour Conference, because this Conference does discuss the questions of Inter-Commonwealth political relationships and it might have been discussed there. We do however feel that whatever particular views the Delegates might themselves have held on the subject the strength and development of Trade Unionism in this country itself did not warrant their action in London. The mass of the workers in India are so ignorant and so economically depressed that they themselves have hardly any notions about Politics, the Cawnpore Trade Union Congress Resolution notwithstanding.

The next meeting of the British Commonwealth Labour Conference will be held in London in 1930.

---

The Bombay Municipal Corporation, which appointed a Special Committee to consider the advisability of granting relief to the families of the mill-strikers decided against the proposition.

The Ninth All-India Postal and R.M.S. Union (Madras Circle) was held at Secunderabad, Hyderabad. Mr. N. M. Joshi presided. Mr. T. P. Mukerji, the General Secretary of the All-India Union, was also present. In the course of his Presidential Address Mr. Joshi said that the Post Office Unions were the best organised, and they should take the lead in the formation of a Federation of all Government Service Associations. He said that Government was the biggest employer of Labour of all kinds, and an effective federation would help not only the cause of Labour in Government but also in private industry. He also suggested that the men recruited for the higher appointments, who were now directly selected, should be appointed after successfully qualifying in an All-India test; and furthermore that these posts should be filled departmentally by men in the lower grades who had shown special abilities and qualifications. He did not approve of Post Office revenue being utilized to assist the Telegraph and the Telephone Departments, as these were mostly used by the richer sections of the community. He felt that these surpluses should first be utilized for the extension of postal facilities in rural areas, then to the improvement of the pay and prospects of postal employees, and lastly for the reduction of postal charges.

---

The Bengal Government intend to ask for the increase of pay of the Police constables from Rs. 18—22 to Rs. 22—26, and are going forward in providing better housing conditions for the constables both in the town and rural areas. We commend this move. We feel that all subordinate service men, who are the pivots of some of the most vital services of the Government, should be decently paid and housed so as to attract decent and educated men into these services.

---

The strike of the East Indian Railway workers at Lillooah ended suddenly on Monday, the 9th July, 1928, on its 134th day.

Mr. K. C. Mitra, the Strike Leader, himself leading the 6 to 7 thousand men to the workshop gates. Mr. W. C. Mould, Deputy Chief Mechanical Engineer, received the men, and on their individually signing a pledge allowed them to enter the works. The strike ended with the unconditional surrender of the strikers. So has ended this sad and tragic fight. It involved about 12,000 workers.

S.K.R.

---

## REVIEWS OF BOOKS

### ENGLISH AND FOREIGN

THE ECONOMIC CONSEQUENCES OF MR. CHURCHILL. By J. M. Keynes. The Hogarth Press, London. 1925. 1s.

This essay belongs to the category of ephemeral literature, and whatever value it may have possessed in 1925, it has ceased to possess any at the present day. Of course, it is written in the usual brilliant and pungent style of Mr. Keynes and it may have some place in the history of controversial post-war literature in England.

The essay was written to attack the monetary policy of the Baldwin Government—the policy of return to Gold. No doubt, that policy did produce some of the harmful effects which Mr. Keynes has mentioned. It did involve the curtailment of credit, the fall of exports, an increase in unemployment, and meant a heavy strain on the country. That is the price which a country has to pay temporarily if it follows a policy of deflation. But the question is, whether such a price is justified or not!

One of the chief reasons for the adoption of this policy was to restore the financial supremacy of London in the international world, and Mr. Keynes himself admits in his article on 'The British Balance of Trade, 1925—27' in the *Economic Journal* of December, 1927, that free international balances are again coming to England. And he records that "the city opinion basing itself on general observation of facts does not doubt that the return to gold restored the position of London as a depository along with New York of foreign balances." As a matter of fact the policy pursued by Mr. Churchill has justified itself by its results and the attack of Mr. Keynes has been proved futile by events.

GURMUKH N. SINGH.

---

AN ECONOMIC HISTORY OF MODERN BRITAIN: THE EARLY RAILWAY AGE—1820—1850.

By J. H. Clapham. The Cambridge University Press. 1926. Pp. 623. Price 25s. net.

Mr. Clapham has already made his mark as an economic historian by his book—'The Economic Development of France and Germany.' The distinction that that book brought him will be well sustained by the present volume. This covers a short period of thirty years, during which the economic conditions obtaining in Great Britain are described in a minuteness of detail all its own. The author has searched every nook and corner of Britain for material and has placed before us enlightening facts about all the phases of the economic life of that country. The width and depth of his researches are admirable and the scholarly way in which the whole material has been put together is excellent. The volume, although it requires patient reading is worth perusal by all those who wish to get an authentic and comprehensive view of economic Britain during the period dealt with. The volume will also prove a valuable guide for the treatment of similar subjects in relation to other countries.



The volume is divided into two parts—(1) Britain on the Eve of the Railway Age—1820—1830, and (2) Early Railway Age, 1830—1850. The phases of the British economic life treated in the periods are agriculture, manufactures, commerce, money, banking and insurance, population, communications, economic activities of the state, and life and labour—all, in their various ramifications. It is not possible to give, in the short space at our disposal, an adequate idea of all these phases. We will, therefore, content ourselves with noting briefly, certain points about the important theme of communications although, it must be said, that the other topics treated in the volume are, by no means, less important.

When the period covered by the volume opened, the means of transport and travel in Great Britain were excellent. The roads were quite efficient; although a bit inferior to those of Sweden, yet they were as good as those of France where "Scientific road-making was an older art than in England." The canals, however, were unique. Nothing like the British canal system could be witnessed anywhere on the Continent. The canal system had "within the short space of half a century" linked up "opposite seas; river basins separated by numberless chains of hills and mountains; industrious towns; fertile plains; and inexhaustible mines—a system more than 1,000 leagues in length, upon an area not equal to one-fourth of France" (p. 75).

The British canal system was practically complete by 1830. Its development had, from the beginning, been greatly influenced by the question of transporting fuel—coal—but although the transport of coal was very important, it was only secondary to the movement of merchandise. But during the period of the ascendancy of the canals, partly owing to the absence of competing systems of transport, no improvement had been effected in the types of boats used, so that the canals were not "markedly more efficient" when the canal *versus* railway controversy started in 1825 than they had been previously.

The proponents of the railway pointed out that the railway was not a new thing in England: Wooden railway roads were started in the time of Charles I, iron-wheeled waggons were used about 1750, cast-iron plate rails between 1767 and 1776, and cast-iron-edge rail in 1789. Railway road developed greatly after 1790 with the development of mining and metallurgy. But, all this while, horses had been used for traction: the locomotive had not come yet. It came in 1823 and was successful by 1829, although the victory it achieved was not easily won. This is clear from the fact that even in 1834 the directors of the Carlisle Line, which was nearing completion, were discussing horses. The reason was that the locomotive was 'imperfect and, to the general public, unknown.' But when both these obstacles in its way were removed, the locomotive railway easily triumphed over its rivals—canals and roads. Between 1825 and 1835 as many as 54 Railway Acts went through Parliament and during the years 1836-37-39 more were passed. From the last date till 1844 there was a general lull in railway construction. But enthusiasm again awakened in 1844. From 1846 "The railways of the country, still far from complete, were settling down into a system" (p. 350): some amalgamations took place.

The canal interests struggled hard against the railway, but to no purpose. Then, realizing that their day was over, they became ready to wind up. So the railways bought or leased 948 miles of canals which left "some 2,750 miles of independent canals in Great Britain" (p. 398).

Like the canals the turnpike trusts also fought and went under. The railway age began its thus far triumphant career.

THE GENERAL PROBLEMS OF PSYCHOLOGY. By R. MacDougall, Ph.D. The New York University Press.

This book is a valuable addition to Professor MacDougall's already substantial contribution to the rapidly growing literature on Psychology. It contains a critical examination of the general problems of Psychology. These problems are three fold (1) to determine the aims and point of view of the science, (2) to discuss the suitability of the various technical methods that may be employed in psychological investigation, and (3) to make clear the value of the application of psychological principles to the various branches of human knowledge and activity. These problems are subjects not for investigation but for reflection and criticism. Psychologists have been far too intent on collecting data and deducing conclusions to pay much attention to these general problems. But no science can afford to ignore them altogether, if it is to develop on right lines. Prof. MacDougall has, therefore, rendered useful service to Psychology by writing this book.

S.C.C.

---

## REVIEWS OF BOOKS

### RELATING TO INDIA

MAHADEV GOVIND RANADE. By James Kellock. Association Press, Calcutta. 1926.  
Price Rs. 1-4. Builders of Modern India Series.

Mahadev Govind Ranade was one of the greatest sons of India. He was a patriot to the backbone, and his patriotism expressed itself in regard to almost every problem of the country. Her social, religious, political and economic problems he approached for solution in the right spirit. At a time when most of the Indian nationalists were being swept off their feet by the real or imagined wrongs that India was said to be suffering at the hands of her foreign masters, Ranade kept his balance. He studied every question with an unbiased mind before giving his judgment. Take, for example, the economic problem of India. This is a problem of poverty. Ranade diagnosed its causes and suggested remedies according to his light. But amongst the causes the Home charges which had come to be termed the "drain" did not find a place. He analysed the true nature of these charges and assessed them at their proper value. Again, he was not averse to foreign capital; its import he regarded as useful for the development of the country which lacked capital. And his idea of foreign competition, which was responsible for the dependence of India upon the single resource of agriculture and hence for her poverty, was sound. "Foreign competition," said he, "not because it is foreign, but because it is the competition of nature's powers against man's labour—it is the competition of organized skill and science against ignorance and idleness—is transferring the monopoly not only of wealth, but what is more important, of skill, talent and activity to others." This soundness of thought characterized Ranade's handling of all other topics as well. A good notion of Ranade's views on them can be got from a study of Mr. Kellock's book.

The book is divided into fourteen chapters and discusses every aspect of Ranade's life very clearly. The get-up of the book is good. The publishers deserve congratulations on that, as well as on their efforts to bring out this useful and handy series of Builders of Modern India.

X

---

SOUTH INDIAN GILDS. By K. R. R. Sastri. The Indian Publishing House, Ltd., Madras. 1925. Pp. 48. Price Re. 1.

In this pamphlet, the author gives us a notion of the existing gild organizations in towns like Madura, and some villages, of South India. The merit of the pamphlet lies in the fact that the author has made himself personally acquainted with what he describes, but its demerit is that he only notes some of the points of contact between these Indian organizations and the mediæval gilds of Europe, and not also the points of difference. These latter it is necessary to have before us in order to properly see how far the Indian gilds approach the position of the European. The fact is that in India castes, being professional, necessarily carried on, and, to a small extent generally, still carry on, some of the functions of their mediæval brethren, but the functions have pertained more to

social and religious than to industrial regulations, except in highly organized guilds, say, as those of Madura, where the regulations affected all caste activities. But leaving that aside, we think that Mr. Sastri has done well in pointing out the advantages that will accrue from the Indian guild organizations being given a proper and recognized footing.

X

---

SOME ASPECTS OF THE INDIAN CURRENCY PROBLEM. By P. L. Chabiani, M.A.  
Re. 1.

This small pamphlet is the contribution of Mr. Chabiani to the polemical literature on our currency issues of the last year. It is a collection of five newspaper articles and one address delivered by him last year under the chairmanship of Sir Basil Blackett. The contents and general tone of the publication being what they are, it does not call for an extended notice so far as the readers of the journal are concerned. Mr. Chabiani is a strong supporter of the Gold Bullion Standard, and considers it to be a very great improvement on our pre-war system. It is easy to agree with a number of points which he urges in its favour; but when he contends that the Gold Bullion Standard will give India a stable monetary unit, he puts forward for it a claim which will not be accepted even by its most ardent admirers. The establishment of convertibility of a currency into gold bullion, even without limit and for all purposes, is no guarantee against fluctuations in its purchasing power. On account of the exclusion of gold currency from active circulation, any discrepancy between the purchasing power of currency and its fixed gold equivalent will not necessitate the expansion and contraction of currency. Fisher's plan which provides for the exchange of currency into varying quantities of gold, may possibly be effective for the purpose, but the system, which is now in operation, in England, and which is to be introduced in India, cannot go a long way in stabilising the value of currency in any country. Mr. Chabiani has also laid what is, in my opinion, undue stress on the bearing of the tariff on the ratio problem. It is not necessary to examine his argument in detail, but the fact that our tariff is mainly a revenue tariff, ought to suggest the inexpediency of stating 'that the strongest argument against the Commission's recommendation is that it seeks to nullify the protective effect of our tariff.' This consideration is not held to be of any consequence by him, but is a conclusive reason for questioning the soundness of his argument. The general conclusions of Mr. Chabiani are sound in most cases, and if arguments used by him in their support appear at times to be of doubtful validity, it is necessary to remember that in carrying on a controversy in the press over an issue, the complexity of which few can or care to understand, it is not easy to maintain an air of academic detachment. The pamphlet is well worth reading by all who want to fully understand all aspects of our currency problems. Mr. Chabiani has emphasized certain points which are generally overlooked by most of the writers on the subject.

GVANCHAND.

---

*List of Books Received for Review.*

1. CHINA'S INDUSTRIES AND FINANCE. By D. K. Lieu, the Chinese Government Bureau of Economic Information. Nan Ho Yen, Peking, 20, Museum Road, Shanghai.

3. **THE PROBLEM OF TRUST AND MONOPOLY CONTROL.** By A. P. L. Gorgon, B.A., formerly Hulme Exhibitioner of Brasenose College, Oxford. George Routledge & Sons, Ltd., Broadway House, 68—74 Carter Lane, London, E.C.
  3. **PATNA COLLEGE CHANAKYA SOCIETY FOURTEENTH ANNUAL REPORT, 1926-27.**
  4. **THE FACTS OF INDUSTRY: THE CASE FOR PUBLICITY.** Macmillan & Co., Limited, St. Martin's Street, London.
  5. **ECONOMICS OF KHADDAR.** By Richard B. Gregg. S. Ganesar, Publisher Triplicane, Madras, S.E.
  6. **ADMINISTRATION REPORT OF THE IDAR STATE FOR THE YEAR 1926-27.** H. B. Kotak, Dewan, Idar State.
  7. **THE RUSSIAN EXPERIMENT, 1917—27.** By K. T. Shah. Publishers: D. B. Taraporevala Sons & Co., 190, Hornby Road, Bombay.
  8. **BUDGET NOTE FOR THE YEAR 1337 Fash.** (7th October 1927 to 5th October 1928 A.D.) By A. Hydari. Prepared for H. E. H. The Nizam's Government. Published by the superintendent, Government Central Press, Hyderabad, Deccan.
  9. **THE COMMISSION AND AFTER.** By a Liberal. Published by Messrs. D. B. Taraporevala Sons & Co., Bombay.
  10. **ECONOMIC PRINCIPLES FOR INDIAN READERS.** By Dr. Praphullachandra Bose, Published by Sir Isaac Pitman & Sons, Ltd., London.
  11. **GREAT BRITAIN FROM ADAM SMITH TO THE PRESENT DAY.** By C. R. Fay, Published by Messrs. Longmans' Green & Co., Ltd., Paternoster Row, London.
  12. **HAZRAT AMIR KHUSRAU OF DELHI.** By Mohd. Habir. Published by Messrs Taraporevala Sons & Co., Hornby Road, Bombay.
  13. **THE POLITICAL ECONOMY OF FREE TRADE.** By Rt. Hon. J. M. Robertson, Published by Messrs. P. S. King & Sons, Ltd., Orchard House, Westminster.
  14. **REPORT OF THE CONTROLLER OF THE CURRENCY FOR THE YEAR 1927-28, CALCUTTA** Govt. of India Central Publication Branch.
  15. **THE SIZE AND DISTRIBUTION OF CULTIVATORS' HOLDINGS IN THE PUNJAB.** The Board of Economic Enquiry, Punjab.
  16. **PRIMER OF CO-OPERATION.** By H. L. Kaji, Bombay Provincial Co-operative Institute.
  17. **INDIAN ECONOMICS.** By G. B. Jathar & S. G. Beri. Published by D. B. Taraporevala Sons & Co., Bombay.
  18. **INDIAN FINANCE IN THE DAYS OF THE COMPANY.** By Pramatha Nath Banerjee. Published by Macmillan & Co., Ltd., St. Martin's St., London.
-

# Indian Journal of Economics

---

---

VOL. IX

OCTOBER 1928

PART 2

---

---

## INDIAN AGRICULTURE AND INDIAN PEASANTS

BY

G. FINDLAY SHIRRAS,

*Gujarat College, Ahmedabad.*

The monumental Report of the Royal Commission on Agriculture in India covers nearly 600 pages and contains 616 recommendations. It is accompanied by fifteen Blue books of evidence and, for a wider public, an abridged report of ninety pages. The Report of this Royal Commission lives up to the reputation of previous Commissions such as the Famine Commissions and the Irrigation Commission, all of which have been of great value to this country. In view of the fact that this industry concerns 250,000,000 souls and that nine-tenths of the population of India live in villages, it is necessary to survey the field covered. The Report is unanimous except for small occasional dissents given in footnotes. The Commission spent two cold winters on tour in India, travelling more than 18,000 miles and, in the intervening summer, took evidence from Experts in England.

## I

The terms of reference were 'to examine and report on the present conditions of agriculture and rural economy in British India and to make recommendations for the improvement of agriculture and the promotion of the welfare and prosperity of the rural population; in particular to investigate:—

- (a) the measures now being taken for the promotion of agricultural and veterinary research, experiment, demonstration and education; for the compilation of agricultural statistics; for the introduction of new and better crops and for improvement in agricultural practice, dairy farming and the breeding of stock;
- (b) the existing methods of transport and marketing of agricultural produce and stock;
- (c) the methods by which agricultural operations are financed and credit afforded to agriculturists;
- (d) the main factors affecting the rural prosperity and welfare of the agricultural population;

and to make recommendations.

This was truly a comprehensive enquiry. The Commission, however, was not to regard as within the scope of its duties the making of recommendations on the existing systems of land ownership and tenancy or of assessment of land revenue and irrigation charges, or the existing division of functions between the Government of India and local Governments. The Commission, however, was at liberty to suggest means whereby the activities of the Governments in India may best be co-ordinated and to show how the Government of India may supplement the activities of local Governments in this all-important industry.

## II

The exclusion of land tenures and land revenue from the purview of the Commission may be, and has indeed been, the subject of criticism in some quarters. This is not unreasonable because a bad landlord can still impose an extra anna in the rupee on his tenant's rent to cover the cost of his extravagances without in many cases any definite breach of the law. Land tenure in many parts of India, for example in the United Provinces, is precarious. The Permanent Settlement introduced by Cornwallis has enriched a class in Bengal and elsewhere, whose contribution to the budget is fixed and it has not conferred advantages to tenants to the extent hoped for in 1793. It has deprived Government, desirous of spending on the nation-building departments the sums so necessary, from increasing its land revenue. Cornwallis believed that the zemindar would make a settlement with the ryot as a 'prudent trustee of the public interest.' Sir John Shore, afterwards Lord Teignmouth, Cornwallis' adviser, strongly objected to the Permanent Settlement because without the fixing of the ryot's rights the landlord would be able to have his tenant at his mercy. Remedial legislation has subsequently mitigated the hardship of the peasant. Similarly, in non-permanently settled areas some argue that without a reform in the land system rural prosperity cannot greatly increase without a more or less fixed demand in perpetuity. With this view one cannot agree, but every effort should be made to ensure that, with an increase in production, the landlord will not come down on the tenant and take a disproportionate share in the results of improvements made by the cultivator. In Bombay, for example, care is taken to see that improvements made by cultivators are not taken into consideration in fixing the State demand. A greater security of tenure and at least a temporary fixation of rents in certain areas would give the tenant cultivators a greater incentive to improve their lands. On the whole the exclusion of land tenures and the assess-



ment of land from the scope of the enquiry was wise. It brings into prominence the vital factors which are even more urgent and indeed more easily solvable.

### III

What then is the real problem? No one who has any experience of agricultural statistics can fail to see the answer. It is this. In India one person is required for the cultivation of 2·6 acres while in England one person can deal with 17·3 acres. The Indian Industrial Commission brought this clearly out in their Report. The yield so far as it is comparable is from two to two and-a-half times as great as in India, and the outturns vary very much more from area to area in India than in England. 'The best in India,' says Sir Charles Low formerly an experienced Director of the Central Provinces, 'is little, if at all, behind the English average; the worst compares closely with English yields in the 14th century and can be improved as they have been.' Agricultural technique has greatly improved in certain areas with undoubted advantage to the peasantry, thanks to the work of the Central Agricultural Institutions under the charge of the Government of India and of the Agricultural Departments of the Provincial Governments. The general average however of Indian production and Indian rural welfare is, all things considered, lower than that which prevails in some Asiatic and in all European States. The scientific organisation of production is pressing indeed. The terms of reference included an enquiry into the question of agricultural credit and indebtedness, perhaps the gravest of the many handicaps to rural prosperity in India. One must be careful not to overstate the case of the poverty of the ryot. His life is not always squalid and meagre. He has his own comforts and adornments, his dress for festive occasions, his brass and copper vessels, his plough cattle, his milch cow or buffalo, and cart. Like the village money-lender he does not have tables and chairs because he prefers to sit on the ground. About 32 years ago a first class settlement officer, now Sir Regi-

nald Craddock, made investigations in a district to classify the tenantry of every village in his district. He divided them into four classes:—

- (1) Those well-to-do, who lent money and grain;
- (2) Substantial cultivators, comfortably off and quite free from debt;
- (3) The average ryot, indebted, but within his credit, without any mortgage on his lands;
- (4) Two categories:—
  - (a) Cultivators seriously involved in debt and with holdings mortgaged; and
  - (b) Very petty cultivators with little or no credit. This was what may be termed the helpless cultivator.

The results were in each class as follows:—

Class (1) from 5 to 10 per cent.

„ (2) „ 15 to 25 „ „

„ (3) „ 60 to 75 „ „

„ (4) „ 5 to 10 „ „

In poor villages (1) and (2) would be few but (4) was seldom more than from 15 to 20 per cent, of whom very few fell within the second group of this class.

Care must be taken not to base too much from a limited range of instances. As every one knows, villages vary with the depth and quality of the soil, the soil's capacity to retain moisture, and other factors. In Gujarat these figures would not be far out on the whole, and they are of much interest. They are not—a caveat is necessary—to be regarded as precise and as applicable to the entire agricultural population of the whole of India.

The most glaring difficulty is the blight of illiteracy that exists up and down the countryside. That is the root of all the evil. In India, at the last census the number of persons who were literate in the sense of being able to write a letter in any language and read the reply was 22·6 millions or excluding children under five only 8·2 per cent of the population. The percentage of literacy among the total population of 20 years and over is but 17·1 for males and 2 for females. The Commission in Chapter XV on Education emphasises their 'considered opinion that illiteracy presents the most formidable single obstacle to rural development in the widest sense. The fact that of the population of twenty years of age and over, nearly ninety per cent cannot be reached directly by the printed word creates a barrier between them and every branch of useful knowledge. The resources in personnel and money which are available are entirely unequal to the task of helping the mass of the cultivators by the spoken word. It is the more unfortunate that it should be so, as the evidence we received shows that the rural community is by no means slow to adopt any form of improvement, of the value of which it is convinced. We are persuaded that the only hope of substantial progress lies in the mobilisation of all the available forces, both public and private, in a determined attack upon illiteracy.' The heart of the problem is the spread of literacy among women and the introduction of compulsory primary education to be measured by decades.

There are other factors of no less difficulty. For example, Indian veneration for the cow has startling economic results. The annual economic loss caused by 25,000,000 superfluous cattle is more than four times the land revenue. In his Presidential Address at the last meeting of the Indian Economic Association the President was of opinion that no important economic change can take place without influencing popular Hinduism. He instances the fact that in the more developed parts of the Punjab 'with its higher standard of living, the Hindu, pressed no doubt by economic necessity, has begun to realize that he cannot afford

to maintain old or bad stock in his byres. . . . An enquiry was recently made in ten villages belonging to Brahmins, Rajputs, Jats, Sainis, and Labanas, all Hindus, to discover the number of disabled and useless cattle maintained on religious grounds. It was found that not a single bullock was kept which was unfit for work and that the moment an animal drops its yoke, the earliest opportunity is taken to get rid of it. . . . Enquiry was also made to discover how many cows there were in these ten villages which had given no milk for 18 months and had shown no signs of calving again. Only two were found though the villages contained over 500 cows, and of the two one was kept by a Mohammadan. . . . A generation ago there was hardly a Hindu who did not set aside a portion for his cow before sitting down to a meal, but now there is hardly one in a hundred who does this.<sup>1</sup> This doubtless applies to the advanced portions of the Punjab only and would be the exception, so far as the superfluous cattle is concerned, in India generally. In Gujarat especially, conservatism is ingrained, and this is well seen, too, in the attitude towards animal life. There is a great reluctance for religious reasons to kill any animal, and thus the animal world is not kept in its place. It competes with man for the produce of the soil. An Expert, who gave evidence before the Commission, estimated that the average loss of grain and fodder and fruit crops from animal depredations was from 10 to 20 per cent of the total yield. Thus monkeys, pigs, peacocks, porcupines, etc., are permitted to consume what ought not to be consumed by them. It must be left to Hindu theologians to discover a solution of the conflict between economics and transmigration. There are other factors much less difficult. There is the wastage from disease such as malaria, plague, cholera, and hook-worm. There is wastage from diet deficiency. Colonel McCarrison of the Indian Medical Service and Japanese scientists have been doing considerable research work in connection with diets. He found

<sup>1</sup> Indian Journal of Economics, Jan, 1928, page 487. Mr. M. L. Darling, I.C.S.

that the diet of the Sikhs and Pathans, while the same as that of the Madrassis in quantity, differs remarkably in components. The latter took milk in the form of curds and cheese, leafy vegetables, and a small amount of animal food-materials which were lacking in the general diet, and this may explain the greater stature of the former. There is moreover no question that nutrition is directly responsible for certain diseases. There is again the fact of the recklessness of the village borrower who accepts indebtedness as a settled fact. Thirty-six per cent is the usual minimum and even in the Punjab legislation dealing with indebtedness does not prevent rural money-lending from ranking second in the yield of income tax. The burden of debt is heavy, mainly because the peasant accepts indebtedness as a 'settled fact and a natural state of life.' Marriages, funerals, pilgrimages and other religious festivals are occasions when profuse expenditure bearing no relation to income or capital is made in accordance with social and religious custom. The author of the interesting book 'The Punjab Peasant in Poverty and Debt' has given examples where cultivators have spent ten, twenty, and even fifty times their annual rental on the purchase of a suitable wife for himself or for his sons and on the festivities which a wedding necessitates. Gifts of jewellery form sometimes one-half or two-thirds of the expense of marriages.

#### IV

The recommendations of the Commission, if accepted, will revolutionize Indian agriculture to the great benefit of the cultivator. Some of the recommendations will take decades to complete, and others cannot bear fruit in the immediate future. An agricultural policy has been outlined and it is here that the lasting value of the Report lies. It is doubtful whether the Reforms have assisted in the application of science to agriculture, as the Central Government was no longer concerned with agriculture in the provinces to the extent that hitherto had been the case. Agriculture became a transferred subject under a

Minister. The Central Government, except to the very limited extent in regard to its powers of superintendence and control over transferred subjects, has, of course, no longer concern with transferred subjects. No provision was made for the co-ordination of the central institutions for research with those in the provinces. This has hindered rather than assisted the application of science to agriculture. It has been said that the greatest fertiliser required by Indian agriculture to-day is finance. There is some truth in this. The provinces alone, with a revenue of about ninety crores of rupees, are spending on agriculture, excluding veterinary charges and co-operative credit societies, only Rs. 117 lakhs or 1·3 per cent, or, if veterinary charges and co-operative credit societies be included, Rs. 207 lakhs or 2·3 per cent.<sup>2</sup> The following table in rounded figures gives the salient facts:—

EXPENDITURE ON AGRICULTURE, 1926-27

(Figures are in lakhs)

	Agriculture.*	Veterinary charges.	Co-operative Societies.	Total.
Central Government	17	8		25
Madras ...	16	8	7	31
Bombay ...	17	5	5	27
Bengal ...	12	4	5	21
United Provinces ...	22	5	3	30
Punjab	22	13	9	44
Burma ...	9	5	4	18
Bihar & Orissa	6	4	3	13
Central Provinces ...	11	3	2	16
Assam ...	3	1	1	5
Total ...	135	56	39	230

\* Including works. The figures in this table are given to the nearest lakh (Fin. and Rev. Accounts, Table No. 58-A, 1926-27) and exclude approximately ten lakhs, charges under Agriculture in England.

<sup>2</sup> Table 58-A, Finance and Revenue Accounts, 1926-27.

It is not possible within the limits of a paper such as this to set out all the main recommendations, much less to criticize even the most important. It is, however, possible to sketch the policy as outlined by the Commission in such a way that he who runs may read and reading understand. The broad conclusion of the Commission is, a better life for the villager is absolutely necessary, and to achieve this concerted effort is a *sine quâ non*. The responsibility for initiating steps must rest with Government—both the Government of India and Provincial Governments. 'If,' says the Commission, 'the inertia of centuries is to be overcome, it is essential that all the resources at the disposal of the State should be brought to bear on the problem of rural uplift. What is required is an organized and sustained effort by all those departments whose activities touch the lives and the surroundings of the rural population.' Sir Muhammad Habibullah, Member in charge of Education, Health and Lands in the Government of India, has lost no time in calling a Conference of Ministers of Agriculture to discuss the proposals and the Conference began its sittings early in October. It is understood, Provincial Governments are also considering the proposals in order to follow the course set by the Royal Commission.

The peasants' great hope of salvation, the Commission rightly believes, lies in the extension of well-organized co-operation based upon careful education and scientific training. In the view of the Commission the progressive adoption of compulsory education is the best basis of co-operation. Official action in this direction, aided by educated Indian opinion, will in the meantime be necessary. The spread of literacy among women will result in lasting literacy among the young. Compulsion should be introduced as rapidly as local conditions permit, and should be preceded by a campaign of explanation and persuasion. Wherever possible, the policy of establishing 'central' schools should be adopted and 'single teacher' schools converted into 'branch' schools. Teachers should be recruited to the utmost practical extent from men of rural origin and upbringing. No attempt

should be made to teach agriculture to boys in primary schools, but vernacular middle schools on the lines of the Punjab experiment, which include agriculture as an optional subject in the curriculum, should be encouraged. The Commission believes, there are advantages in meeting the popular demand for the teaching of English in vernacular middle schools, and the addition to the curriculum of high schools in rural areas of a course in agriculture on the lines of that given in vernacular middle schools of the Punjab type, but of a more advanced character, would be productive of good results. Agricultural Colleges should be affiliated to Universities.

With more and better education as outlined in Chapter XV, most of the problems touched on in Chapter XIV (The Village), Chapter XIII (Co-operation) and Chapter XII (The Finance of Agriculture) would not be difficult. Moreover, the application of science to agriculture and animal husbandry would follow as a matter of course. The half-hearted attitude to research would soon disappear. Important recommendations are in this connexion put forward, viz., the creation of an Imperial Council of Agricultural Research of 39 members, three of whom would be whole-time members.

The Council would be entrusted with the administration of a non-lapsing fund of Rs. 50 lakhs, to which additions should be made from time to time as finances permit. It is proposed, that, of the three whole-time members the Chairman should be an experienced administrator and the other two eminent scientists, representative of agriculture and animal husbandry, respectively. A provincial research committee should be established in each of the major provinces. There will thus be concatenation between the Central Agricultural Research Institute at Pusa and the provincial research institutes.

Several important recommendations are made in regard to the diseases of live-stock, to seed distribution and to seed-testing, and to the necessity of bringing by demonstration the results of research into the heart of the village. Other recommendations deal



with the subdivision and fragmentation of holdings, irrigation, markets, co-operation, and the wiles of the money-lender.

One of the best chapters in the Report—Chapter XVIII—deals with the all-important question of statistics, ‘statistics relating to cultivation and crops; such trade statistics as have an immediate bearing on agricultural production; statistics relating to live-stock and implements; vital statistics, and the statistics necessary to an accurate presentment of subjects relating to rural welfare.’ The Commission counted among its members several specially qualified by experience to speak on these matters. The writer remembers a study of the statistical machinery in the Department of Agriculture in Washington, where the statistical department is perhaps one of the largest and best in the world. No real progress in agriculture can be made without full and accurate statistics, and the value of these statistics both to the farmer and the trader is universally recognised. In the Dominions there is a strong central bureau and, as in Australia, also provincial offices. If the Council of Research is created, it will, like other bodies be engaged in the problem, require statistical information, and the value of an efficient central department to the provinces is also clear. The Commission recommends that the present statistical organisation of the Government of India should be strengthened by the appointment of a Statistician of first rate ability as head of a separate Department of Statistics, and the appointment of this officer should precede any changes in the present arrangements for statistical work. It is hoped that as a result of his appointment a Bureau of Statistical Information would be created, with the administration of which leading economists, scientists, and business men would be closely associated (paras. 538-539).

The Commission has also dealt with the question of population. It is true the birth-rate is high but the death-rate is also high, and there is very great wastage of life up and down the countryside. The League of Nations has recently shown that so far as Asia is concerned, population, as compared with 1913, has not increased so rapidly as the outturn of food-grains and raw

material, or the quantum of trade. The variation to per cent between the population of the census of 1911 and that of 1921 was only +1.2. In the betterment of agriculture in India this problem is of considerable interest. Conclusions have from time to time been put forward on this question, which do not bear examination by the eminently impartial method of statistics.

The Commission has laid down in broad outline what in their opinion ought to be the future agricultural policy of India. The solution of the great problem is the realization by the peasant of the possibilities of improvement by official action aided by the sympathy of educated opinion. The change of outlook in the Indian village, according to Lord Linlithgow and his colleagues, must rest on the initiative of Government especially of Provincial Governments. It is true that 'unless the cultivator has the will to achieve a better standard of living and the capacity, in terms of mental equipment and of physical health, to take advantage of the opportunities which science, wise laws and good administration may place at his disposal,' no real improvement is possible. The Commission, however, adds that 'we have no hesitation in affirming that the responsibility for initiating the steps required to effect this improvement rests with Government.'

---



# THE AGRICULTURAL COMMISSION, 1926—28

BY

A. C. SEN GUPTA,

*Morris College, Nagpur.*

The appointment of the Royal Commission on Agriculture in India in April, 1926, raised high hopes in the minds of the people. There were, no doubt, some people who suspected and said it was only an attempt to divert the attention of the country from industrial development. They forgot that agriculture was by far the most important industry of the country and improvement of agriculture would benefit the largest section of India's population.

The Report of the Commission has not been very warmly received and there is a certain amount of disappointment with it. Real constructive recommendations for the whole of India are difficult to make. The conditions, crops and the problems are so different in different parts of the country, that it is doubtful if one Commission and a common report for the whole country is the best way of getting about it. A longer examination of the special problems of each province and a separate report for each province would have been more satisfactory and useful. No doubt it would have meant more time, labour and expense, but all these would have been quite worth while. Had they adopted this course, the Commission would at least have escaped the complaint of a Bombay critic that the Punjab was not India. That the Punjab looms large in the Report cannot be denied. But it may be quite reasonably argued that the Punjab is doing more in the direction of rural enquiry and rural betterment than any other province. The great ability of Mr. Calvert and his intimate acquaintance with that province are no doubt to some extent responsible for the many references to the Punjab.

A common report for the whole country has been issued and we must make the best of it. The only way to remedy this defect now is for each province to appoint its own committee to

consider how far and to what extent the findings and recommendations of the Commission are applicable to itself and to suggest necessary action. The problems are different not only in different provinces but in different parts of the same province. To take the Central Provinces for example, the problems of the cotton-producing districts are different from the problems of the wheat-producing Narbudda Valley and the problems of these are different from those of rice-producing Chattisgarh. Some of these differences are due to the nature of the crop grown, the nature of the soil and the characteristics of rainfall. But these are not all. Thus, for example in the cotton country, there is very little burning of the cattle-dung and in Chattisgarh that is its principal use. In Chattisgarh, on account of the old tribal custom (now defunct) of Lakhabatta and differences in the quality of lands in the same village, the problem of fragmentation has assumed serious proportions. Nowhere else in the province is the problem so serious. Hence arises the importance of and necessity for a small provincial committee.

Another complaint has been that the Commission have said nothing startlingly new. Those, who are familiar with the writings of men like Clouston and Howard, will find very little that is new in the Report. But, after all, a Commission's report is not the place to look for startlingly new things. Students of Economics will find the Evidence volumes very interesting and instructive.

The Report is useful in bringing out clearly what is being done in different provinces towards the solution of any problem that is common for the whole of India, e.g., the Co-operative work in the Punjab and the legislative action in the Central Provinces to effect consolidation of agricultural holdings. But more interesting and perhaps more universally applicable is the method adopted to cheapen improved implements at Hmawbi near Rangoon. The Commission suggest: "In so far as cost is a deterrent to the adoption of even comparatively inexpensive implements, the agricultural departments would do well to consider

the possibilities of mass production of the wooden parts of such implements. At the departmental farm at Hmawbi close to Rangoon, we saw a striking example of the reduction in price which such mass production can effect. The indigenous plough, consisting of a wooden frame and iron share, costs Rs. 5 to Rs. 6. The share costs annas 8 to Rs. 1-8 according to size. A strong frame, when made by hand, costs Rs. 4-8, but can be turned out by machinery in lots of 200 at Rs. 1-12 each, thus enabling a much improved share costing Rs. 2-8 to be fitted and the whole plough to be sold at a price below that of the inferior indigenous plough. The result was that the implement recently introduced was selling rapidly." This is an idea indeed.

The Commission have also done good service in emphasising the importance of assisting agriculture and encouraging the use of agricultural improvements by means of lower railway rate. On the continent of Europe the railway rate has been used by different governments even in the present century for the furtherance of national trade. That the railways can help agriculture in this way admits of no doubt. It may even be the most paying policy for the railways to adopt, for if more is produced, as a result it will mean more traffic for the railways. Thus in connection with the railway rates on fertilisers, the Commission point out: "Any considerable increase in the crop yield as a result of the use of such manures—and for such use price is often the limiting factor—must eventually lead to an increase in traffic and thus benefit the railways concerned" (p. 94). The Commission recommend that railway freight rates on agricultural machinery and implements should be re-examined and where possible concessions should be given (p. 114). Railways do not regard sugarcane mills as agricultural implements. This, in the opinion of the Commission, deserves examination. The term "agricultural implements" in the tariff schedule should be interpreted in the sense most favourable to the interest of the cultivators (p. 115). It will be news to many that the railways charge the same for a newly born calf as for a cow and the

Commission recommend free carriage of calves under one month.

With the fodder problem as acute as it is in certain months of the year, e.g., from March to July in the Central Provinces, it is interesting to note the information, supplied to the Commission by the Chief Conservator of Forests in the United Provinces, that the freight charges make it unprofitable to send even baled fodder more than 50 miles by rail. The Commission recommend that the railways should charge the lowest rates for transport of fodder compatible with their position as profit-earning concerns. In this connection it may be important to note that "From experiments conducted by the Forest Department in the Central Provinces in 1912-13 it seems doubtful, indeed, whether the ordinary cultivator is at present willing to purchase fodder at all. He showed no disposition to take it when it was offered at four annas a maund" (p. 262). Let us examine how far this doubt on the part of the Commission is justified. The experiment referred to was undertaken in the following circumstances: As a result of a Conference held in 1909, orders were issued to Conservators in 1910 to undertake experiments for the supply of baled grass from various forest divisions in their circles in order to *encourage the stall-feeding of cattle* by the local agricultural population. The result of these experiments are given in Chief Conservator's letter No. C.-87, dated the 14th January, 1914. He wrote as follows:—

"Since 1910 endeavours have been made to induce agriculturists to *resort to stall-feeding* and to purchase baled grass pressed by the Forest Department, but practically no success has been attained and often the baled grass that has been stored has had to be written off in succeeding years or disposed of at a loss."

From the above it is clear that what has failed is the attempt to induce the cultivator to buy baled grass at a time when grass is plentiful in the grazing grounds. The people prefer to graze their cattle wherever possible. But from March till the rains come, there is a scarcity of grass in the grazing grounds and if

dried fodder can be made available then, or if the cultivators can be taught the use of silos, they may be quite ready to buy such baled grass or dried fodder. It will prevent the waste of forest grass on the one hand and the deterioration of the live-stock in summer on the other.

Some of the findings of the Commission do not speak well of the Agricultural departments. The Commission hold that "Although, ever since the re-organisation of the agricultural departments in 1905 manurial experiments have engaged a large part of their time and energies and have been carried out in every agricultural station in India, it cannot be said that the agricultural experts are even yet in a position to give satisfactory advice to the cultivator in regard to the use of manures" (p. 81). Again in connection with the use of bone-meal they say, "The first essential is to obtain definite data in regard to the price at which, and the crops for which, the use of bone-meal is advantageous to the cultivator. We suggest that the Agricultural departments should take early steps to collect these data" (p. 93). We have often heard complaints that the cultivators do not listen to the advice of experts. A bad or premature piece of advice makes future progress more difficult, and the advice so far given in the matter has evidently been premature. As regards the most important of the agricultural implements—the plough—the experts seem to be in no better position. At present they are not in a position to speak of the comparative merits of the country and the inversion plough. "It is, again, a point on which sound advice can only be given to the cultivator on the basis of exhaustive trials of the comparative merits of the country and of the inversion plough, carried out under his conditions and extending over a period of at least 5 years" (p. 112). Nor do the Commission speak well of the efforts of agricultural officers to invent new types of implements. "One of the reasons why the work of the Agricultural Department on improved implements has so far been disappointing is that the idiosyncrasies of individual inventors have been allowed too free play and that



the advantage of a continuous series of experiments fully recorded and handed on from one officer to his successor, has been sometimes lost sight of " (p. 112). But it will not be fair to close this subject without saying something about the important and valuable work done by agricultural experts, e.g., the single seedling transplantation of rice, selection of suitable types of different crops. The introduction of roseum, a short-stapled and heavy-yielding cotton, by Clouston into the Central Provinces has " during the last fifteen years, brought many crores of increased income to the cultivator " (p. 100). It is claimed that it added Rs. 15 per acre to the profits of the cultivator. This worked out in 1917, when 700,000 acres were sown with roseum in the Central Provinces, to over a crore of rupees." (Howard: Crop Production in India, p. 64.)

One can reasonably complain that the Commission have not allowed the two problems of alkaline soil and water hyacinth, the space and consideration that their importance warrant. On the question of alkaline soil, which is very important in view of the irrigation projects in Sindh, the Commission only say that where the soil is so stiff that drainage is entirely prevented " injurious salts of soda and magnesia accumulate, reducing the soil to the sterile condition so well-known under the names of usar, reh and kallar " (p. 73). And again " The treatment of alkaline lands has received more prolonged attention but the investigation has suffered from interruptions and more systematic and continuous research is required to discover measures to deal with the widespread evil " (p. 350). Howard complains that sufficient attention has not been paid so far " to the conditions which are necessary for the formation and accumulation of alkaline salts. Almost all workers on this problem appear to have been obsessed by the importance of reclamation and by the need of obtaining a practical result." (Crop Production in India, p. 46.) The Commission seem to be erring in the same direction. Howard does not agree with Hilgard and Carver about the causes of alkaline soils. The importance of finding out the causes can be gathered from the

following: "If, as appears to be the case, poor soil aeration is found to be an important factor in the production of alkali, we must expect that the institution of perennial irrigation on the stiff soils on the left bank of the Indus and in parts of Oudh will lead to the formation of alkali land on a large scale in a comparatively short time, unless means are taken to maintain soil aeration." (Howard: Crop Production in India, p. 48.)

As regards the water hyacinth curse or the lilac devil, the situation has become very serious in Bengal. Considering the urgency of the problem in Bengal, Assam and Burma, one cannot help feeling that too little space has been devoted to this question, although no doubt the Commission realise the gravity of the situation and recognise that "Further research is urgently needed and in view of the fact that the pest has appeared on an extensive scale in four provinces, we consider that the formulation of a programme for work of this character should be one of the first questions to be taken up by the Council of Agricultural Research" (p. 381). The importance of the question is apparent to those who have seen the waterways of Bengal. It is not a question of communication only, but cultivation itself suffers. As rice-fields are flooded, the lilac devil simply swamps the fields and the crops suffer if they are not completely destroyed. In the language of the Commission, "This pest is most serious in Bengal where it not only completely blocks the smaller waterways and renders the navigation of the larger ones very difficult, but spreads during the monsoon to cultivated land which it drives out of cultivation. We were informed that an estimate, that about three per cent of the occupied land in the Faridpur district was lying derelict from this cause, was a reasonable one" (p. 381). In some parts of the Dacca district cultivators have adopted an ingenious method of protecting their rice-fields from this pest, viz., growing 'Dhaincha' as a sort of fencing round the rice-fields. The 'Dhaincha' plants grow sufficiently tall and close to one another before the invasion of the water hyacinth begins, to keep it out of the fields effectively. In parts of this district

where there was no malarial fever before, a kind of fever has made its appearance locally known as "Kachuri fever," Kachuri being the name given to the water hyacinth. I do not think it has been finally established that the fever is in any way connected with the appearance of this plant. But the villagers connect the two, as the one has followed the other. The local theory ascribes the fever to the fact that on account of the thick growth of this pest the sun cannot play on the water and proper aeration of the water is checked.

It is not possible to do justice to a report of over 700 pages of rather closely printed matter in a brief review. I shall just say a few words about rural industries before I finish. Many who have an intimate knowledge of our villages, and their extremely insanitary condition, have felt that if a man of Mr. Gandhi's influence had devoted himself to direct the energies of the villagers, in the off-season when their farms demand very little of their attention, towards the improvement of the village, a much richer crop in the form of better health, greater happiness and corporate feeling would be harvested than can be got from the spinning-wheel. Of course the introduction of the one need not stand in the way of the introduction of the other—but it is only a question of relative emphasis. The Commission observe: "Corporate action for the improvement of his village would, of course, give him something to do; but this awaits the awakening of a public health conscience and the revival of the corporate spirit in the village" (p. 575). From every point of view this revival of the corporate spirit is of the greatest importance.

As regards the village artisans the Commission quite rightly remark: "Instead of standing in local isolation, they must, if they hope to survive the struggle of competition, modernise their own methods of work by adopting power-driven machinery, as they are already beginning to do in certain parts of the country. These artisans can also be trained to effect repairs, to stock and fit spare parts and to handle successfully the improved types of machinery which are bound sooner or later to be introduced"

(p. 569). In C. P. villages the carpenters and blacksmiths have each their own clients among the cultivators and they are given annually a certain amount of grain per plough for effecting the necessary repairs and supplying the wooden parts, etc. If the craftsmen cannot keep pace with improvements in agricultural implements, they will lose their trade as many other craftsmen have done, and the pressure of population on land will increase, for they will either become landless labourers in the village or cultivate the little land they may possess. These craftsmen are not all landless. The Commission recommend, "Government should also provide, when required, suitable courses in their technological institutes, in the railway workshops, and in the engineering workshops and on the farms of the agricultural departments" (p. 569).

The Commission quite rightly discuss the qualifications necessary in a successful Director of Industries, for it is he who will have to introduce these improvements. After all what the Governments must see is that each province gets the man who can and does do the job. Whatever his qualifications, if he cannot show that he has the imagination, ability and drive necessary for effecting these improvements, he must go and must make room for the man who can. The man who succeeds should not be disturbed. In a certain province the Director of Industries is also the Registrar of Co-operative Societies, Chief Customs authority and Registrar of Joint Stock Companies. Now the work of a Director of Industries, properly conceived and executed, will demand the whole attention of even the ablest man. To make him do so much, is to say the least unjust to him and unfair to the taxpayer. The Registrar of Co-operative Societies should have enough on his hands to occupy the whole of his time. To make the same man perform both the functions and act in addition as Chief Customs authority and Registrar of Joint Stock Companies, is to induce him to attend more to the routine work than to watch and conceive, execute and organise improvements and innovations. It may not be altogether a coincidence that the position of the Co-operative

movement in that province is not what it should be. No wonder the Commission remark: " We found few, if any, indications during our enquiry that the departments of industries were exercising any appreciable influence on rural development, and unless they are strengthened and their efficiency increased, it would seem that, so far as the interests of the cultivator are concerned, there is little justification for their continued existence " (p. 579).

Rice mills, oil mills, cotton ginneries, sugar refineries, saw mills and tobacco factories " are of special interest to the rural population, as most of them are open only for that part of the year when agricultural occupation is at its lowest ebb and the cultivator and his family, therefore, supply a considerable proportion of the labour employed in them " (p. 566), e.g., " Seventy-five per cent of the labour employed in the fifteen large sugar mills situated in Bihar and Orissa is agricultural " (p. 576). The Commission however conclude: " But even with the aid of new ideas and assistance in training and marketing, the contribution which rural industries can make, in reducing the heavy pressure on the land, is infinitesimal and in the nature of things they cannot as a rule hope for ever to survive the increasing competition of organised industry " (p. 575). Again, " Speaking broadly, there can be no satisfactory blending of two avocations. If, therefore, a marked reduction of pressure on the land is required, it must be achieved by a definite diversion of the surplus labour of the country to industrial centres " (p. 564). On the whole this conclusion is quite sound. Certain selected industries may flourish in the village and may give employment to a part of the rural population, but these cannot appreciably reduce the pressure of population on the land, specially when prudence plays so little a part in the matter of increase of population as it does in our country. The solution of the problem must be found in mass education and industrial development. As we cannot fight modern guns with our ' lathis,' so also we cannot meet the competition of modern organised large scale industry with the ' Charkha.'

# THE REPORT OF THE ROYAL COMMISSION ON AGRICULTURE IN INDIA, 1928

BY

B. G. BHATNAGAR,

*University, Allahabad.*

Though not necessary, yet for reasons that will become clear as we proceed, I propose to review the report in terms of the criticisms that have appeared in the Press. In the Indian Press, the report has been characterised as full of platitudes and disappointing.

The Commission were called upon by His Most Gracious Majesty "generally to examine and report on the present conditions of agriculture and rural economy in British India and to make recommendations for the improvement of agriculture and to promote the welfare and prosperity of the rural population; in particular to investigate:—(a) the measures now being taken for the promotion of agriculture and veterinary research, experiment, demonstration and education, for the compilation of agricultural statistics; for introduction of new or better crops and for improvements in agricultural practice, dairy-farming and breeding of stock; (b) the existing methods of transporting and marketing of the existing agricultural produce and stock; (c) the methods by which agricultural operations are financed and credit afforded to agriculturists; (d) main factors affecting the rural prosperity and welfare of the agricultural population; and to make recommendations subject to the limitations that it will not be within the scope of the Commission's duties to make recommendations regarding the existing system of land-ownership and tenancy or of assessment of land revenue and irrigation charges, or the existing divisions of

functions between the Government of India and the local Governments; but the Commission shall be at liberty to suggest means whereby the activities of the Governments in India may best be co-ordinated and to indicate directions in which the Government of India may usefully supplement the activities of local Governments."

Examining the Report in the light of the directions given to the Commissioners I find that whatever they have described or recommended is strictly within their terms of reference. Without going into the merits of each individual recommendation which is impossible to do within the four corners of a review article, I have no hesitation in saying that after reading through its 750 pages I could hardly find a platitude to relieve the strain caused by its realistic and matter-of-fact outlook, and that there is nothing inherently platitudinous about their recommendations. Over and over again we find them emphasizing the need of introducing only such improvements as may be within the limited resources of the average cultivator and the country at large. Over and over again we find them passing over the more effective methods of development adopted in other countries in favour of either developments on indigenous methods and appliances or comparatively simple and less expensive innovations which are calculated to cause the minimum of break from the long-established traditions and practices of the people. And even then the journalists and some of the leaders of political thought have adjudged the report as full of platitudes, and thus created an unfavourable atmosphere about it. It is unfortunate that our journalists and political leaders sometimes let themselves go without giving sufficient thought on some very momentous issues. They do not realize that in this country, where independent thinkers are so few and where most of us take our cue from the press and the platform, a very heavy responsibility rests on their shoulders in the matter of passing judgments on matters of such great moment to the millions of this land, as the development of agriculture and rural life in general.

The Commission have laid down a programme for the development of rural life and agriculture for the whole of India, and this in a sense may be considered as a platitude, and as far as I can see the only platitude they have allowed themselves to indulge in. Certainly a programme for the development of agriculture and rural life in general in the whole of British India, without considering its financial implications, is a big platitude indeed. But the fault is not theirs. They were called upon to discharge a specific duty and they have done it. Now it is open to the Governments in India and the Indian public men to make the whole report a big platitude, may be, a big and costly farce, by refusing to vote the necessary funds for translating the recommendations into practice, or to make it a big success by working out the main recommendations in a judicious and determined way. Both the Government and the public men have got to realise that the problem of development of Indian agriculture and rural life in general in India is a huge problem and it can only be solved by a huge expenditure of money and effort. Before setting about the translation of recommendations into practice they should go deep into their financial implications. Either they should make up their mind for a sustained expenditure of crores over a series of years or not move in the matter at all. Mere tinkering with the recommendations, such as ending with the creation of legislative sanctions and the upper expensive organizations recommended by the Commission with no funds left to further the detailed programme laid down by them is bound to result in failure and farce. We have had a good practical demonstration of this in the application of the recommendations of the Sadler Commission in the United Provinces. In the first flush of the moment the United Provinces Government separated the Intermediate education from the Degree classes, created a Board of High School and Intermediate Education, started a number of Teaching and Residential Universities and opened a few Government Intermediate Colleges with only four classes in which a well-paid and efficient staff was appointed. But soon after the soda-water enthusiasm



was bubbled off and the visionary of the moment was brought to hard earth face to face with financial stringency, the result was that the Intermediate classes, instead of being kept apart from the School classes up to the eighth standard, began to be tagged on as mere appendages to the High School, the Lower Subordinate grade came into existence, and the whole atmosphere of the school was perforce allowed to gain the upper hand. The reforms were calculated to improve the High School and Intermediate education if carried in their entirety; when reduced to a farce in their translation into practice, have resulted in lowering the standard of Intermediate teaching and acquirements, and the product, when it reaches the University, is found to be no better in outlook than the product of the old High School. The same kind of danger awaits the recommendations of the Agricultural Commission if it is not guarded against from the very start.

The scheme of rural regeneration adumbrated by the Royal Commission is a comprehensive whole and can only be a success if it is put into practice in its entirety. Thus, if the Central Government pass an Act and bring into existence the Imperial Council for Agricultural Research, while the Provincial Governments do not move in the matter of strengthening their staff and organisation for experimentation and research, it should not be difficult for us to realize that the Imperial Council would have little to do by way of co-ordination. Or, again, if the Imperial Government and the Provincial Governments were to stop either for want of funds or for want of enthusiasm with the highly developed and costly Imperial and Provincial organizations, and no further work were undertaken in the *mufassil*, then the cultivator *qua* cultivator is bound to remain where he is now, and the whole experiment will have become a huge platitude. The only way to make the recommendations a reality is to give them a fair and courageous trial in their entirety and then I, for one, am confident that they would become a huge success.

There is only one direction in which the expenditure can be economised, and it is that instead of starting a complete programme

of agricultural and rural development in the whole of a province, we may begin with a limited area, say, one district or a group of two or three districts. Unless this is done, I do not see how with the limited resources of the country the whole thing is going to be done, unless, of course, we decide to borrow on a large scale. Each of the provinces is capable of being divided into a number of homogeneous regions, and I would suggest that the development of only one such region at a time should be undertaken by each Provincial Government. This would keep the Provincial organization contemplated by the Commission busy, and at the same time restrict the funds required to a manageable sum, not only because the *mufassil* organisations will be restricted but also because the number of highly paid experts required at the provincial experimental station will not be so large as it is likely to be in the case, if work of development were started throughout the whole province.

---

# THE CONCENTRATION OF POPULATION IN EASTERN BENGAL

BY

RADHAKAMAL MUKERJEE,

*Lucknow University.*

Eastern Bengal is the most populous and most productive portion of the Ganges Valley. Not merely is this tract enriched, agriculturally speaking, by the activities of two different river systems, but the average rainfall becomes heavier as we descend along the courses of the rivers. Thus both the double-cropped area and the area under the wet variety of rice increase and co-exist with heavy rural density. It is here that in fact we meet with the most heavily populated rural areas in the whole world.

The following Thanas in East Bengal districts represent the world's highest records of rural density. They have a density of more than 1,300 persons per sq. mile, i.e., more than four times the rural density which can be supported in Western Europe.

District.	Thana.	Density per sq. mile.
Dacca      ...      ...	Keraniganj      ...	1,841
	Dohar      ...	1,900
	Narayanganj      ...	1,474
	Sonakanda      ...	2,873
	Fatulla      ...	1,586
	Baidya Bazar      ...	1,474
	Narsingdi      ...	1,307
	Munshiganj      ...	2,347
	Rajabari      ...	1,819
	Tangibari      ...	2,681
	Srinagar      ...	1,755
	Shirajdikhan      ...	1,938
	Lohaganj      ...	2,783

District.	Thana.	Density per sq. mile.
Faridpur ... ..	Bhanga ..	1,357
	Madaripur ...	1,391
	Palang ..	1,561
	Lonesing ...	2,076
	Sibohar ...	1,420
Bakarganj ... ..	Jhalakati ...	1,410
	Banaripara ....	1,459
Tippera ... ..	Daukandi ..	1,301
	Homna ..	1,348
	Bancharampur ...	1,437
Noakhali ... ..	Begamganj ...	1,306
	Ramganj ...	1,370

According to recent reliable estimates the density of population in the three regions in China—the Northern, the Yangtse Delta and the Canton Delta—does not exceed 1,000 to the sq. mile. Similarly, in the plain of Chengtu, the scene of the most intensive irrigation in China, the density does not rise beyond 1,700 to the sq. mile. In China, such heavy density is accompanied by agricultural idleness, a great migration of surplus labour and by frequent famines which tend to readjust the population to resources. In Eastern Bengal, on the other hand, the symptoms which indicate that the soil can no longer bear the tremendous pressure of population have not appeared. The rural density may still increase, and the land can bear the increases easily.

To understand the agricultural conditions associated with the phenomenal concentration of population along the Ganges and the Brahmaputra we should consider the employment of land in the three contiguous districts of Dacca, Faridpur and Bakarganj. In these districts land formation has been recently completed by these

rivers, and typical thanas which are old or new alluvium exhibit characteristic tendencies.

		PERCENTAGE TO NET-CULTIVATED AREA OF					Density.
		Aus.	Aman.	Jute.	Twice-cropped.	Orchards and gar- dens.	
1. DACCA							
Thana							
Old Alluvium	{ 1. Sealoo ...	24.2	63.2	15.0	54	Figures not avail- able.	740
	{ 2. Harirampur ...	12.1	74.3	8.0	49		1,050
	{ 3. Sabhar ...	14.6	45.9	20	33		686
	{ 4. Kapasia ...	22.3	41.4	21	19		631
New Alluvium	{ 5. Munshiganj*	6.8	34.0	44.6	32		2,347
	{ 6. Srinagar ...	16.7	59.2	19.0	31		1,755
2. FARIDPUR							
Thana							
Old Alluvium	{ 1. Pangsa ...	40	47	12	28	5	751
	{ 2. Bhusana ...	39	75	15	39	8.7	703
New Alluvium	{ 3. Madaripur ..	6	80	16	30	2.4	1,391
	{ 4. Palang ...	20	80	17	33	11.0	1,561
3. BAKARGANJ							
Thana							
Old Alluvium	{ 1. Gaurnadi ...	12.6	82.4	6.5	26.9	15	1,271
	{ 2. Jhalakati ...	9.6	68.3	0.8	9.8	15	1,410
New Alluvium	{ 3. Bhola ...	8.4	83.7	0.5	25.1	10.5	733
	{ 4. Patuakhali...	8.8	89.5	...	9.1	5.0	801

\* Sub-division headquarters.

Figures for the density of Munshiganj Thana have to a small extent swelled on account of its being the headquarters of a sub-division, but they represent lower density than the other contiguous thanas such as Tangibari or Lohaganj. Patuakhali, though it is also the headquarters of the sub-division, also shows lower density than most of the contiguous thanas. It is noteworthy that we have in these thanas more numerous families of the higher castes than elsewhere.

The following agricultural tendencies are noticeable:—

1. Generally speaking, density of population increases with the prevalence of *aman*, which is the most productive crop in the delta. The proportion of *aman* increases in areas where the inundation comes early and is widespread. Thus it expands as we descend towards the Meghna estuary. It is in Bakarganj that we find the complete dominance of *aman* which accounts for phenomenal productivity and expansion of population. Here *aus* is either mixed with *aman* or precedes it. The other crops are treated as catch crops for land whose main crop has already yielded winter rice.
2. In less recent alluvial tracts more remote from the silt-bearing rivers, the proportion of *aus* is much greater than in more recent ones; even here there is a tendency to supersede it by jute which comprises different varieties and can grow very well in elevated lands as well as in depressions. In Dacca the best jute grown is cultivated in comparatively elevated loamy soil, or on the old red soil. In Faridpur, on the other hand, the best jute is grown in the *chars*, and *jhils*.
3. The proportion of twice-cropped lands, considered with the existence of *rabi* crops, which are of little importance in East Bengal, and the absence of jute, indicates agricultural depression. This is the case of the old alluvium or old land raised in Dacca and Faridpur.
4. The last does not apply to comparatively new alluvium, in the basin of the river Meghna, which is now in an immature stage of development. Here *aman* thrives best and when jute is added to paddy as an important crop, as in Tippera, and Noakhali, a higher

density of population can be easily reached and maintained.

5. Orchards and gardens of betel-nut, cocoanut, etc., also contribute to high density. Bakarganj, in particular, grows fruit-bearing trees of considerable variety and in great profusion. The density of cocoanut trees per acre is, for instance, astonishing in some thanas: Jhalakati, 39; Pirojpur, 38; Mehendiganj, 30.
6. Where the land is new formation and is developed as yet but incompletely, density of population is small, especially in areas which suffer from storm waves of the estuary.

Some of the world's highest figures of rural density thus have been reached in Eastern Bengal as a result of the dominance of *aman* and jute crops along the tracts bordering the mighty rivers. The percentages of both these crops are much lower in Central and Western Bengal where the delta has ceased to be active. In the district of Tippera the greatest density is in the thanas bordering the Meghna from Nabinagar to Chandpur.

		Density.	Summer.	Winter.	Spring.	Jute.	Miscellaneous.
Along the Meghna	Nabinagar ...	1,063	52.4	53.8	36.5	38.4	3.6
	Matlabazar ...	1,217	54.6	47.4	24.4	45.3	1.2
	Daudkhandi ...	1,301	53.5	44.8	30.1	45.1	2.3
	Chandpur ...	1,275	46.2	64.2	27.6	31.0	.2

Here both jute and chilli crops in addition to rice explain the high productivity and density.

		Density.	Summer.	Winter.	Spring.	Jute.	Miscellaneous.
Inland	Chandena ...	881	62.6	93.1	8.8	5.3	.3
	Chandelagram ...	956	56.2	89.4	10.3	.2	.6
	Lakshman ...	831	39.5	94.6	5.4	1.7	.2

Here the staple crop is the winter one and is supplemented by summer rice. Jute is grown scantily and the density of population is much lower. The density of population in Nasirnagar falls below 750 and the country cannot sustain a heavier density.

The decadent conditions in the moribund delta strike us in sad and sharp contrast.

It is noteworthy that malaria and agricultural depression go together in the old alluvium in Eastern Bengal, as they also do in still older alluvium in Central and Western Bengal. The density of population on the outcrop of the old alluvium is in a level in Dacca and Mymensingh. Similarly the parts of Faridpur which adjoin Nadia and Jessore suffer from obstructed drainage agricultural depression, and their density is on a pact with that of the two decadent districts.

In Central and Western Bengal, fertility of soil declined due to loss of inundation silt when the rivers deteriorated as the result of the Ganges having marched eastward. The climate also became unhealthy when the natural drainage was upset. This has been the result not merely of the degradation of the former tributaries of the Ganges into stagnant lagoons, but also of the construction of numerous embankments and high roads along the natural drainage channels without sufficient culverts which has led to water-logging. All this has reacted very unfavourably upon agriculture. What the loss of inundation silt implies will be gauged from the result of some experiments in the area irrigated from the Eden canal system which show that plots receiving river water yield 25 maunds of paddy per acre, whereas they give only 16 maunds per acre when cultivated with rain water. The loss of outturn is also shown by the following figures :—

	Average yield.			
	<i>Aman.</i>		<i>Aus.</i>	
Nadia ... ..	805	lbs.	835	lbs.
Jessore ... ..	1,145	"	870	"
24 Parganas ...	843	"	1,014	"



Along with the decline of outturn we have in some districts of Central and Western Bengal an actual contraction of the area cultivated. In the districts in Eastern Bengal all available land is being taken up for cultivation and a large portion of the cultivated area bears more than one crop; the percentage of 'cultivated land' which in any year bears no crop at all also is very small, almost negligible. In Western Bengal, 'cultivated land' often remains untilled, while the percentage of twice-cropped area is much less than in Eastern Bengal. The following table will show the situation:

	Percentage of the cultivated area.		Proportion of twice-cropped to net-cropped area.
	Old fallow.	Current fallow.	
Birbhum ...	9	6	2
Bankura ...	9½	2	1½
Bakarganj :	4½	1½	15
Dacca ...	1	½	35

On account of the decline of fertility and prevalence of malaria the amount of good cultural land left fallow is quite large in some districts in Western Bengal. In Bankura the percentage of area shown as culturable but not cultivated is 22 per cent of the whole for the complete district and 27 per cent for the Sadar subdivision. In Jessore the total of new fallow area of the two subdivisions of Magura and Jhenida now is found to be 18,260 acres, as against 7,640 acres only calculated by Babu Ramshanker Sen during

1872-73. The following comparative statement shows the change in the employment of land in two subdivisions within fifty years:—

	Magura.		Jhenida.	
	Percentage of area culturable but not cultivated.	Percentage of unculturable area.	Percentage of area culturable but not cultivated.	Percentage of unculturable area.
1872-73	2'54	2'74	2'43	3'03
1925 ...	8 85	13 11	11 51	11 17

The percentage of culturable and unculturable waste lands, as then found as compared with the percentage now found, shows considerable increase in the uncultivated and unculturable areas. The new fallow area in Jessore is more than four times that of Faridpur. In the district of Burdwan as well, there has been great shrinkage of cropped area. Only 47 per cent of the cultivable area is being cropped now, as compared with more than 80 per cent a few decades ago. Depopulation and physical break-down due to malaria and decline of soil fertility have led to a serious set-back of cultivation in Central and Western Bengal. In some of the more decadent areas land fit for cultivation often remains untilled and there is more land than there are cultivators available. In most parts of Eastern Bengal, on the other hand, the process of colonisation and settlement continues and the uncultivated parts form an outlet of the surplus population. Some areas, indeed, have grown so fast that the problem of finding sufficient land will soon become acute. The standard of living and of comfort is much higher than anywhere in the Ganges valley. The peasant here is reasonably certain of harvesting a sufficient paddy crop. He has a source of ready money in jute as well as in the produce of betel-nut and cocoanut plantations. Above all, the diet based mainly on fish, which is much more abundant here than in most

deltas of the world, is much more nutritive as well as certain. Some parts of Eastern Bengal like Bikrampur in Dacca district, or Muradnagar in Tippera, are ancient centres of high density dating ten and five centuries back respectively. Such high density is yet sustained. On the other hand, parts of Nadia, Burdwan, Jessore, Murshidabad and Rajshahi, which were centres of high density in Bengal when the Eastern tracts were still full of forests and swamps inhabited by wild buffaloes, rhinoceroses and tigers, constitute the most decadent region in the whole valley. Speaking of this region about 1670, Bowrey said: "On the great river Ganges and many large and fair arms thereof are seated many fairy villages, delicate groves and fruitful lands affording great plenty of sugars, cottons, lacca, honey, beeswax, butter, oils, rice, grain with many other beneficial commodities to satisfy this and many other kingdoms. Many ships of the Dutch, the English, the Portuguese do annually resort to lade and transport sundry commodities hence and great commerce goes on into most parts of account in India, Persia, China and South Seas." The decay of the distributary river system from the Ganges, the consequent fall of the subsoil water level, loss of fertility and defective drainage, and their associated evils have led to such economic decline that the above description can hardly be believed by a modern villager to apply to this region in the past. Within barely a century and a half the Ganges in its waywardness has robbed it of health and plenty in order to bestow them in full measure to another region. Nature in the delta is inconstant; she slowly but inevitably changes her favourite on whom she showers her choicest gifts.

---

# INDIAN PASTURES AND FODDER SUPPLY

BY

L. L. SUNDARA RAM,

*London.*

## **A Neglected Field of Study.**

Time was when the Vedic hymnal invoked the powers that be for plenty in cattle and plenitude of pasturage. In ancient India our forefathers appeased the multitude of elemental gods with sacrifice of either kind in order to guarantee by divine intervention sufficiency of pasturage for national purposes in those ages of pastoral and semi-agricultural organisation.<sup>1</sup> In ancient Indian polity statesmen and government vied with each other in making the body-politic realise the supreme necessity of ensuring sufficient pasturage for agricultural purposes. Sage Sukra would enjoin upon the sovereign the requisiteness of adequate pasture-lands round about the capital city before any spot was selected for its construction.<sup>2</sup> Kautilya makes specific provision for Superintendents of Pasture in the personnel of governmental employees.<sup>3</sup> Again, he lays special stress upon this phase of agricultural economy and gives pasture-lands a political significance by saying that during times of war the best method of reducing a recalcitrant noble or an aggressive enemy is to reduce his supplies of pasturage by burning his pasture-lands. Nothing more is needed to show

<sup>1</sup> See evidence supplied in the writer's *Cow Protection in India*, Vol. I, pp. xii—220. Published by the South Indian Humanitarian League, Madras (1927). Cf. *Rig Veda*. Book X. Hymn 19. Again, see J. N. Samaddar : *Economic Condition in Ancient India*, pp. 18ff. (1922).

<sup>2</sup> Sukraniti, I. 425—28. Translation by Benoy Kumar Sarkar (1914), p. 28. Also his *Positive Background of Hindu Sociology*, pp. 256—259 (1914). Sukra speaks of the capital "happily provided with resources in grasses and woods."

<sup>3</sup> *Arthashastra*. Dr. Shamasastry's translation, 2nd Edition, 1923, p. 172.

the importance which the administration of pastures occupied in ancient Indian state-craft, and it would not be far from the truth if I say that the double enterprise of civic and state activity in this direction ensured a reasonably adequate amount of pasturage for national purposes.

But India fell on evil days. Successive wars have devastated her natural resources. Constant foreign invasions, the Greek, the Indo-Bactrian, the Hun, the Muhammadan, and finally the European, have not only made India a perpetual battle-ground, but actually extirpated all forms of settled government of a long-standing nature except a few flashes here and there. The interest of the ruling dynasties always concentrated round the capital and provincial principalities, and the actual lot of the agriculturist was relegated to cold storage. His tenure was never stable. His place in national economy was equally insecure. Today he is, tomorrow he may be not, and be replaced by the conquering hordes and their favourites. Civic activity was stifled, and rapacity on the part of the provincial revenue underlings and upstart timariots made his position absolutely intolerable. *Taqavi* loans were never administered in adequate quantities, and in some places none at all, irrigation facilities were totally neglected, and cattle requirements were unprovided for, as most of the bovine animals doing the commissariat work for the medieval armies were annihilated without any concern for the future. Gradually a certain state of affairs was brought about wherein the live-stock, which is the mainstay of agriculture, and pasture lands, which are the main feeders of this much-needed livestock, were totally neglected and brought to nothingness. I will illustrate this point by two extracts from the accounts of medieval travellers in India. Francois Bernier, who visited India during the closing years of Shah Jehan and the early years of Aurangzeb, uttered a remarkable statement relevant to our present purpose: "It ought likewise to be observed that owing to the great deficiency of pasture land in the *Indies* it is impossible to maintain large numbers of cattle; the whole, therefore, would soon disappear if animal food were eaten in any

thing like the proportion in which it is consumed in France and England and the country would thus remain uncultivated. The heat is so intense, and the ground so parched, during eight months of the year, that the beasts of the field, ready to die of hunger, feed on every kind of filth like so many swine."<sup>4</sup> This cannot be an exaggerated picture, as most of us have witnessed the same kind of phenomenon in many rural parts of India, while in urban areas it is the rule and not the exception. Again, Manucci, an Italian traveller who visited India shortly after Bernier departed from the country, tells us<sup>5</sup> that "instead of verdure all is blank and barren," during the devastating wars of Aurangzeb over three hundred thousand draught animals were killed. How many such wars have been fought on the Indian soil and how many millions of cattle have been destroyed in this manner till seventy years ago, besides the loss of live-stock due to natural death and premature death owing to bad methods of breeding and maintenance!

Mutual recriminations of deficient pastures and devastated live-stock actually worked up to such a position that Indian agriculture has been totally exhausted, and the national dividend which gains its sap from agriculture lowered. Troublous times have always been characterised by neglect of primary sources of national prosperity. Destruction of cattle meant inducement on the part of the State and the people to belittle first and then finally neglect national pastures. And a neglected state of pastures always means deficiency in numbers and stamina of the live-stock of the country. I will heré illustrate this source of national disaster by comparing the numbers of cattle-stock in India with those of other countries of the world:<sup>6</sup>

<sup>4</sup> *Travels in the Moghul Empire*, p. 326. Translated by Archbald Constable and revised by Vincent Smith. 1914.

<sup>5</sup> *Storia do Mogor*, Vol. IV, pp. 252 and 296. Translated by William Irvine and continued by Jadunath Sarkar.

<sup>6</sup> *Wealth of India* by Profs. P. A. Wadia and G. N. Joshi. Macmillan (1925), p. 267n. \*

(000 omitted)

Name of country.	Number of cattle.	Population.	Number per hundred of population.
British India ...	1,47,336	2,44,268	61
Denmark ...	1,841	2,500	74
U. S. A. ...	72,534	92,000	79
Canada ...	5,576	7,250	80
Cape Colony ...	1,270	1,100	120
New Zealand ...	1,816	1,200	150
Australia ...	11,956	5,500	259
Argentine ...	25,845	8,000	323
Uruguay ...	6,830	1,400	500

The picture here is complete in itself, and when we remember the fact that India is a pre-eminently agricultural country and must ever remain so, and that 72 per cent of the population directly depend upon this national industry, we will realise that the time has come when a thorough and exhaustive inquiry into the cattle-stock of the country is made. To improve the quality and quantity of the cattle, the pasture lands and natural grasses of the land must not only be made accessible to them, but every effort should be made to improve their extent and richness.

### **Their Importance in the National Economy of India.**

In the national economy of a country pastures were always regarded as an invaluable asset. Their absolute associatory value to live-stock, which supplies the motive power to agriculture on which depends the material prosperity of a nation, always made the economists of the world lay special emphasis on them. Sir

John Sinclair wrote more than a century ago<sup>7</sup> that the question of national pastures "is a subject of inquiry, which, next to that of land in arable cultivation, is essential for the interests of mankind." Again, he proceeds to say: "But besides the immediate importance of grass, its indirect effect upon the production of corn, by communicating additional fertility to the soil, in the alternate course of tillage and pasturage, is a most important consideration. It seems, indeed, beyond a doubt, that the soil not only obtains a recruit of food, for the nourishment of grain when cultivated, from the decayed herbage rotting on the surface, and the manure it obtains when pastured, but also acquires a consistence favourable to fertility, while it remains in grass, defended from the variations of the seasons, under the protection of a close carpet."<sup>8</sup>

Adam Smith raises two points of great consequence in assessing the relative values of natural grasses and well-produced pasturage:<sup>9</sup>

- (1) "No more cattle can with profit be fed in the stable than what are necessary for tillage."
- (2) "The rest (of the land which is not cultivated) will, the greater part of them, produce scarce anything but miserable pasture, just sufficient to keep alive a few struggling half-starved cattle."

And he concludes, quoting Kahn the Swedish traveller's impressions (circa A.D. 1749) of the condition of pastures obtaining in America, that "the poorness of pasture, in his opinion, occasioned the degradation of their cattle, which degenerated sensibly from one generation to another." Adam Smith's argument is cogent

<sup>7</sup> *The Code of Agriculture*, p. 380. By Sir John Sinclair, Bart. London. 1817.

<sup>8</sup> *Ibid.*, pp. 380—403. The whole of this section dealing with pastures forms an admirable study well worth the attention of the serious student of Indian Economics.

<sup>9</sup> *Wealth of Nations*, pp. 176—179. Routledge's Edition.



enough even to the lay reader. The average farmer cannot afford to maintain with reasonableness even the absolute minimum of live-stock sufficient to till his lands, with the produce raised from the lands themselves. Whereas, live-stock which are used for a thousand and one other purposes in an agricultural country have to be left starving upon stray grasses, while the farm-fed cattle, if ever they are well fed, have to be over-worked to such an extent that speedy degeneracy and death are sure to overtake them. These two processes of deterioration are sure to react upon the soundness of the species, and ultimately a dearth of live-stock coupled with their degeneracy is the result.

The case of India proves these points beyond doubt. Experts are agreed on these matters in saying that Indian pastures besides being admittedly poor are utterly inadequate for national requirements. Mr. Howard,<sup>10</sup> formerly Director of the Institute of Plant Industry, Indore, and a competent authority on Indian agriculture, wrote that "countries like India, which have no good pastures, ought to pay particular attention to fodder supply." He continues that "the whole of the cattle problem in India is intimately bound up with the provision of more fodder and better fodder obtained by methods within the reach of the cultivator. A more nutritious and ample ration than that now available is the first condition of success in all schemes of cattle improvement which have been advocated." And cattle improvement is the essential point which must be recognised and provided for in any movement of agricultural improvement in India, as we shall see presently. Dr. Voelker, a famous authority on matters agricultural and sometime Agricultural Advisor to the Government of India during the nineties of the last century laid equal emphasis on this matter. Mr. Hume, C.B., late Secretary to the Government of India in the Department of Revenue, Agriculture and Commerce, wrote a strong Memorandum in favour of this phase

<sup>10</sup> *Crop Production In India : A Critical Survey of its Problems*, p. 60. By Albert Howard, C.I.E., M.A. Oxford University Press. 1924.

of Indian agriculture.<sup>11</sup> He wrote: "Over a great portion of the Empire the mass of the cattle are starved for six months every year. The hot winds roar, every green thing has disappeared, no hot-weather forage is grown, the last year's fodder has generally been consumed in keeping the well-bullocks on their legs during the irrigation of the spring crops, and all the husbandman can do is to keep the poor brutes alive on the chopped leaves of the few trees and shrubs he has access to, the roots of grass and herbs that he digs out of the hedges of fields and the like." And he impatiently remarks, "are we to accept such calamitous visitations as dispensations of Providence to be acquiesced in humbly and submitted to as inevitable?"<sup>12</sup> Another pious and serious student of Indian economic conditions<sup>13</sup> deplores the state of Indian pastures in a different way altogether. He says that India has now fallen on bad days, and her national pastures have been wilfully and dangerously neglected. It is indeed a sad spectacle which he presents to us. He maintains that there is "a deficiency of that luxurious pasturage for which India was formerly famous, when the cultivators and husbandmen of old vied with one another in regard to it and prided themselves on the richness of their pasture lands; and so highly was this great essential in Indian husbandry held in estimation that it afforded the Hindu *Savans* and poets frequent themes for effusions."<sup>14</sup> The Review of Agricultural Operations in India for 1921-22 contained a remarkable statement which shows that "gradual pressure of population resulted in a serious encroachment on the grazing areas, which formerly contributed to the maintenance of cattle."<sup>15</sup>

<sup>11</sup> *Agricultural Reform in India*, pp. 46-48. By A. O. Hume, C.B. London, Allen & Co. 1879.

<sup>12</sup> We may remember here that due to the efforts of this gentleman, when in office and in private capacity, the Agricultural Department of India was created, and systematic work inaugurated.

<sup>13</sup> *Khana: A Handbook of the Resources of India*, pp. 64-65. By Col. G. H. Haly. London, 1870.

<sup>14</sup> Cf. *Hurriale* grass is held to be characterised as "the sweetest and most nutritious of pasturage for animals." *Ibid.*

<sup>15</sup> *Agricultural Operations in India: The Official Survey for 1921-22.*

It went further to show that the fodder problem pressed so heavily upon cattle that they were obliged to subsist on the residues of the crops which were already scanty. Illustrations of this kind may be multiplied indefinitely, but these are sufficient for our present purpose to show that the time is come when we have to take stock of the present conditions of supply of fodder for national purposes and then try remedial measures if we find them inadequate.

There is one more point to be considered here. It is the dietetic value of pastures to cattle, and how it bears upon cattle stamina. Carl Semper wrote long ago that "the amount of nourishment required daily by the animal must be equivalent to the organic matter which is daily used up in the various organs to keep the vital process; or, the more active the animal is, the more food will it require. . . . The quality of nourishment has, if possible, a greater influence on the life of the individual and consequently on the species."<sup>16</sup> Again, Professor Stapleton, a recognised agricultural authority, maintains that the mineral content of pastures and other herbage has a profound effect upon the productive capacity of farm animals, that it has a varying effect in different localities, and that animals grazing over a vast area are purely guided by their appetite to vary their feeding ground and chemical analysis has always demonstrated the good qualities of the pastures naturally selected by animals.<sup>17</sup> This is a scientific point which has a practical effect upon our arguments later on.

After all this emphasis rightly laid upon pasturage and fodder supply in the national economy of a country, what is the actual bearing of this neglected field of study upon agricultural India? It is indeed hard to assess exactly the damaging influ-

<sup>16</sup> *The Natural Conditions of Life as they Affect Animal Life*, pp. 41—44. Kegan Paul. 1899.

<sup>17</sup> *Agricultural Journal of India*, Vol. XXII, pt. II, March, 1927. Article on "Getting the Best out of the Pastures" by J. G. Stewart, Ministry of Agriculture, England.

ence of a neglected pasturage upon national health and wealth. The only method of assessing it, I think, will be found in the estimate of the *per capita* pressure of agriculture upon cattle wealth and the *per capita* supply of milk in the country. The following figures show the incommensurateness of cattle for agricultural purposes and the inadequacy of milk supply in the country.<sup>18</sup>

Province.			Area in acres tilled by a pair of plough cattle in a season.	<i>Per capita</i> supply of milk in India. (In chittacks.)
Bengal	...	...	13·2	$\frac{1}{2}$
Madras	...	...	10·2	1
Bombay	...	...	44·4	1
Sind	...	...	27·2	$1\frac{1}{2}$
Agra	...	...	13·0	1
Oudh	...	...	8·0	$1\frac{1}{2}$
Bihar and Orissa	...	...	11·4	1
Punjab	...	...	19·0	$1\frac{3}{4}$
Burma	...	...	42·0	$\frac{2}{3}$
Central Provinces	...	...	26·8	$1\frac{1}{4}$
Berar	...	...	54·0	$1\frac{1}{4}$
Assam	...	...	8·0	1
N.-W. F. Provinces	...	...	16·0	1
Ajmer-Merwara	...	...	14·0	$1\frac{1}{4}$
Delhi	...	...	30·5	$\frac{2}{3}$
Coorg	...	...	7·0	1

<sup>18</sup> From the appendices to my forthcoming monograph on *The Cow in Indian Life and Sentiment*. Cf. the present writer's article on *The Milk Supply of India in the Welfare*, February, 1927 (Calcutta).

These figures serve as a finger-post to the agricultural and national prosperity of India. According to experts, a pair of cattle is supposed to till adequately five acres of land in a season. In our country, the maxima and the minima stand at 54 acres in Berar and 7 acres in Coorg. Medical authorities tell us that the human body requires at least  $1\frac{1}{4}$  seers of milk daily to sufficiently recuperate bodily waste, and what we have in India is  $\frac{1}{2}$  a chittack in Bombay to  $1\frac{3}{4}$  chittacks in the Punjab; and a chittack is one-sixteenth of a seer! These tables are constructed with the greatest liberality and sympathy, and here we see the grave problems affecting national prosperity crying out for remedial measures.

### Two Kinds of Pastures.

There are two kinds of pastures to be taken into consideration. The first kind is what is known as the "natural grasses" of the land. This comprises all stray growths of grass entirely due to the bounties of nature whether they be in forests, village commons, if any, sides of rivulets, streams and rivers, slopes of mountains, in fact on any tiny piece of land not touched by human hand. The other kind partakes of grasses raised by various kinds of ranching as in North America, Siberia, New Zealand and other places, and pastures reared carefully by man after the crops are removed from the fields, and in this class we may include for the sake of convenience all kinds of fodder crops recently raised in India, such as jowar, lucerne, etc. The present position in India of these two kinds of pasture and fodder will be best seen from the following statistics:<sup>19</sup>

<sup>19</sup> All the above tables in the article have been carefully compiled from the official returns of the agricultural statistics issued by the Government of India for the various years.

*(In millions of acres)*

Year.	Forest.	Fallow.	Fodder crops.	Not available for cultivation.	Culturable waste other than fallow.
1911-12 ...	81	55	5	150	115
1912-13 ...	82	49	6	146	115
1913-14 ...	82½	51	6	147	115½
1914-15 ...	83	46	6	145½	115
1915-16 ...	85	52	7	144	114
1916-17 ...	85	45½	8	143½	112½
1917-18 ...	87	48½	8	143	111½
1918-19 ...	88	73	7	147	114
1919-20 ...	88	52	8	146	113½
1920-21 ...	88	61	8	141½	115
1921-22 ...	85½	50½	8½	152	151
1922-23 ...	85½	47	8½	154	154
1923-24 ...	86	49½	9	152	154½

A glance at the above figures shows quite clearly the astounding ups and downs in the extent of land under various arrangements year after year. Dadabhai Nauroji,<sup>20</sup> Professors Wadia and Joshi<sup>21</sup> in particular, and several others<sup>22</sup> in general, are persistent in showing how defective are the statistics supplied by the Government of India. Indeed, it is difficult to attain absolute accuracy in compiling statistics for such a vast country as ours, but one

<sup>20</sup> *Poverty and Unbritish Rule in India.*

<sup>21</sup> *Wealth of India.*

<sup>22</sup> Shah, Vakil and others in their respective fields.

cannot really see how fallow land, for example, can rise from 42½ millions of acres in 1917-18 to 73 millions of acres in 1918-19 and fall again to 52 millions of acres in 1919-20; or again, culturable waste other than fallow to rise from 115 millions in 1920-21 to 151 millions in 1921-22. There may have been exceptional reasons for local variations here and there, such as are suggested by these figures, which affect the totals for the whole country, but sudden changes of this extraordinary kind are hard to conceive in so steady and conservative an industry as agriculture, and that too in India. Here, again, the fact that the figures are given in millions and corrected up to six places mitigates the glaring nature of these variations.<sup>23</sup>

In the foregoing table two points arrest our attention. One is that land not available for cultivation has increased by more than a million acres in 1923-24 over what it was in 1911-12. Again, the columns "Culturable waste other than fallow" shows an enormous increase from 115 millions in 1911-12 to 154½ millions in 1923-24. The case of forests shows an increase of 5 millions, and to this we shall return later on in greater detail. The area under fodder crops has nearly doubled. This is a favourable turn, but it is not to the desired extent as this paper attempts to show. Fallow land shows a steady fall of five million acres.

It is, indeed, hard for me to draw any definite deductions from the above figures. But I give them to show that at least under the headings of forests and land not available for cultivation there has been an altogether unprecedented rise where there should have been a steady fall. One point seems to be patent from this picture, that whatever the variations relating to the actual adjustment of agricultural operations in India may be, there has been

<sup>23</sup> It must be noted here that even the Government itself accepts the conflicting nature of statistics, especially those supplied by the Agriculture and Forest Departments, as, for example, an item such as fallow land may at once come under the double jurisdiction of the revenue and forest authorities. Again, different systems of computation are adopted not only in different provinces but even in the same locality and hence the alarming nature of the statistical information purveyed by the Government. In this connection, see *Agricultural Statistics for India, 1924-25*, Vol. I, pp. 60-61.

a dangerously progressive encroachment upon the supply of pasture lands and natural grasses. The increase of provision under land utilised for fodder crops may at first sight seem to counter-balance the losses sustained. But, as we shall see presently, the repair is more apparent than real. Leaving aside the possible ways of improving our fodder supply for the present, I will now take up the important question of the forest administration of the Government of India, and indicate its exact relationship to the pastures of the country.

### **Defective Forest Administration in India.**

We have already seen above that the greater part of the natural grasses are supplied by the forests of a country. The grasses are really "natural" in that they are sporadic yet profuse growths under the favourable cover of the forest trees which supply a sufficiency of humidity for a really luxurious growth of grasses. Most of the grazing in India, which has not scientific graziers or efficient systems of ranching as in other countries, was formerly done on these vast sources of natural grasses. The cattle of the villages contiguous to the forest tracts have an undisputed and age-long right of direct daily access to these natural grasses, while cattle belonging to districts not immediately contiguous to these local forest areas were allowed to graze on them freely when the fodder supply of those districts was being thinned in the dry and hot seasons. This meant a temporary exodus of cattle from villages to the nearest forest tracts in times of draught and hot winds, and when the cattle went dry and thus served no useful purpose to their owners. Thus, these forests proved to be efficient feeders as far as the food requirements of the cattle went.

But later the position was reversed. A constant attempt on the part of the Government of India to increase the area of the forest tracts under their control greatly changed the position of cattle-owners. The following figures are of great interest:<sup>24</sup>

<sup>24</sup> It is to be observed that no other agency except the Government can adequately compile statistical information of an useful kind, and if the Government



Year.	Total area of forest.	Area closed to all ani- mals.	Area closed to browsers only.	Number of grazing offences.
1899-00 ...	...	...	...	16,233
1900-01 ...	...	...	...	17,053
1901-02 ...	216,879	36,503	35,741½	17,353
1902-03 ...	216,824	37,452	36,362	18,939
1903-04 ...	232,701	37,671	23,859	21,230
1904-05 ...	232,941	37,803	19,356	22,310
1905-06 ...	233,651	38,748	16,239	24,644
1906-07 ...	240,138	39,609	19,599	24,809
1907-08 ...	237,809	39,079	20,639	25,016
1908-09 ...	241,774	41,188	20,902	26,173
1909-10 ...	248,625	43,205	20,015	27,490
1910-11 ...	247,095	42,692	21,123	27,306
1911-12 ...	246,550	41,568	21,414	27,176
1912-13 ...	242,529	42,692	22,713	28,052
1913-14 ...	249,364	43,591	23,302	33,938
1914-15 ...	253,559	45,021	22,975	32,362
1915-16 ...	252,601	44,784	22,789	33,990
1916-17 ...	250,125	45,765	24,026	32,815
1917-18 ...	254,028	47,249	24,333	31,099
1918-19 ...	254,556	46,468	24,416	31,756
1919-20 ...	253,389	47,161	25,742	31,584
1920-21 ...	250,544	46,835	26,959	25,412
1921-22 ...	249,304	47,000	27,619	27,682
1922-23 ...	224,613	45,228	27,945	30,611
1923-24 ...	132,806	46,212	27,865	31,136
1924-25 ...	135,725	45,856	28,782	34,013

wants to have any importance given to the statistics supplied by them, there should not only be co-ordination of compiling agencies, but also careful supervision to make them at once comprehensive, synthetic and accurate.

Even a casual glance at the above figures will reveal to us a few important points about the administrative side of the Indian forests. Firstly, but for the last two years for which figures have been supplied above, there has been an annual progressive increase in the extent of forest lands in India. In conformity to this, there is an equally progressive and alarming increase in the case of forests *closed to all animals*, for purposes of grazing. To relieve this in all plausibility, there has been a discernible fall in the figures indicating the closure of land to browsers only. In the final columns, during the course of a quarter of a century the number of grazing troubles have more than doubled.

What strikes me as most noteworthy in this is that there has been a persistent movement on the part of the Government to increase the rigours of forest administration. Let alone the increase in the extent of land brought under the control of the red-tape, nearly ten thousand acres of land were added to the area which was totally prohibited for all cattle to graze upon during a period of 25 years. The relaxation of rules relating to browsers does not make out a case for the Government. It may indicate in all probability that most of the cattle are not browsers to make occasional sallies into the regions protected by a few posts marked with forest administrative symbols, while it certainly points to the fact that they were invariably trespassing the forest rules and thus swelling the ranks of offenders against grazing regulations. The increase in the number of grazing offences is really serious. It may seem to the departmental head that the population is severely to blame in not having taken any precautionary measures to prevent cattle from trespassing into the forest tracts, and thus reflect upon the cultivator's sense of law and order. But the idea will be dismissed when we see that he has no other alternative. He must either see his cattle perish under his own eyes or allow them to trespass into the forest areas. He is not for one moment oblivious of the penalties he is going to bear. He knows definitely that his cattle will be impounded in the first instance. He is really glad at this, since his cattle which have to be starved while

in his custody will now have a fairly decent allowance of rations in the Government cattle pounds. Next, he will be summoned to pay the maintenance costs and the fine imposed by the magisterial authority or the Forest Panchayat, as the case might be, for his trespass. He is willing to pay it too, as by so doing he has made sufficient provision for the food of the cattle during the impounding period, when he cannot possibly provide himself with appreciable quantities of fodder and grasses either for love or for money. In the last alternative, if he is too poor to relieve his cattle by paying this ransom, he is willing to forfeit his burdensome possession which will be sold by the magisterial authority. While the Government expenses are made good, any surplus of sale-proceeds, which is not generally likely to be realised, will be returned to him. At the best, he will be induced to allow free scope to his cattle to commit the same offence again and again. At its worst, he will be rendered all the poorer by the deprivation of his useful burdens. One fact is certain, that with all the increased facilities for the raising of fodder in India at the present day as compared with a quarter of a century ago, there is a growing, definite and articulate demand for the natural grasses of the land. The above figures show, again, that there is a definite and not-inconsiderable premium put upon grazing offences fostered by the ring-fence policy of the Government of India in their rigorous administrative rules of forest conservation.

Let us examine the problem in greater detail. The following table will illustrate the way in which cattle in India have been affected by the tightening up of the grazing privileges :

Year.	NUMBER OF ANIMALS GRAZED ON PAYMENT.		NUMBER OF ANIMALS GRAZED FREE.	
	At full rates.	At privileged rates.	By right under settlement.	During pleasure of Government or otherwise than under settlement.
1901-02 ...	8,216,228	1,648,357	2,184,148	710,285
1902-03 ...	7,779,894	1,727,591	2,185,560	566,872
1903-04 ...	8,445,289	2,186,774	1,240,330	446,682
1922-23 ...	2,340,884	2,884,944	3,785,749	832,887
1923-24 ...	4,250,120	4,290,770	3,739,943	1,051,249
1924-25 ...	3,335,172	10,374,148	3,723,196	1,283,647

The outstanding feature of this table is the phenomenal rise in the number of animals grazed at privileged rates. From one and a half millions in 1901-02 it rose to ten millions of animals of all descriptions in 1924-25, including bovine, ovine, camels and others according to the divisions of the agricultural department. Even allowing for the presence of five million animals which the fall in the number of animals grazed at full rates asks us to reckon, there is a clear rise of five million animals which have to pay the so-called privileged rates. A million more animals are now grazing under settlement rights. Again, half a million more animals are now grazing during the pleasure of Government or otherwise than under settlement rights. But, all things considered, three million more animals of all descriptions are now grazing under some kind of payment or other. This is enough to show the evil effects of the rigours of forest administration. To this, the rise of half a million in the number of animals which are allowed to graze free during the pleasure of Government or otherwise than under settlement rights, and the million more animals which are

allowed to graze free under settlement rights, make, indeed, very poor amends.

This point will be more clear when we consider the incidence of the pressure of grazing regulations upon the two kinds of bovine animals which form the mainstay of Indian agriculture.

Year.	Full rates.	Privileged rates.	Rights under settlement.	During pleasure of Government.
<i>Cows and Bullocks.</i>				
1901-02 ...	3,713,894	883,617	1,275,996	575,629
1902-03 ...	3,806,821	1,052,959	1,275,655	424,259
1903-04 ...	4,207,894	1,207,941	1,040,669	352,754
1922-23 ...	1,030,338	1,807,728	1,789,026	615,890
1923-24 ...	2,001,330	2,033,470	1,739,979	404,343
<i>Buffaloes.</i>				
1901-02 ...	641,355	227,599	223,953	101,151
1902-03 ...	663,502	196,236	242,086	108,587
1903-04 ...	743,221	262,483	230,611	61,737
1922-23 ...	232,301	179,885	365,575	128,484
1923-24 ...	614,261	1,351,497	367,107	562,726

From these two tables it will be seen that the buffaloes fared the worse of the tightening up of the grazing rights. It may at first sight seem that the number of cows and bullocks grazed on payment in 1923-24 has not changed very much—it showed a perceptible decrease on the other hand. Here it will have to be pointed out that the number of cows and bullocks grazed free as

indicated by the remaining columns has considerably diminished. This is not the real test to have an accurate estimate of the effects of grazing regulations at the present day. We should not ignore the point that the total number of bovine animals has shown great increase during the present century.<sup>25</sup>

(In millions)

Year.	Bulls and bullocks.	Cows.	Cow calves.	Buffaloes.	Buffalo calves.	Total.
1905-06	30	22	26	13	...	91
1924-25	51	38	31	20	11	151

In twenty years the bovine stock increased by sixty millions, leaving aside the similar concurrent increase in the number of other animals. There ought to be like extension of grazing facilities in case these animals have to thrive well. But from these facts it is manifest how utterly inadequate is the provision for grazing in India at the present day. Needless for me it is to reiterate the sole responsibility of the Government. Admittedly, our live-stock is absolutely inadequate for national and agricultural purposes. But to starve this inadequate live-stock is not only to lower agricultural efficiency and national health but also to bring about the ultimate lowering of the quality of the species and thus expedite their extinction.

We are now fairly in a position to enquire into the nature of the forest administration in our country as far as it affects our pastures and fodder supply. The administration of Indian forests is far from satisfactory. Even Dr. Gilbert Slater had to

<sup>25</sup> I cannot vouch for the accuracy of these figures, as has been already pointed out. But we have no other data to proceed with. It may be that the agricultural statistical survey in 1905-06 was not as thorough as at the present day, and for this reason alone I abstained from giving figures for any year towards the close of the 19th century for the sake of comparison.

point out that the reserved forests are “protected by a few granite posts with letters ‘R.F.’ and by the forest guards, one man for a vast extent of the country, and this protection is not always adequate.”<sup>26</sup> Inadequate management is not our present concern. What we are concerned about are the fundamental age-long rights that were violated when forest tracts were ‘conserved,’ and the actual rights of the peasants and landed proprietors under such conservation.

The objects of the Forest Administration in India resolve themselves under two heads. One group of authorities sums them up as follows:<sup>27</sup>

- (1) “We must endeavour to furnish that protection against avalanches, ravines, and torrents, which belts of forests can alone efficiently afford.”
- (2) “We must make such arrangements as to secure for the use of the people of the country, as well as for export, a sufficient and permanent supply of timber and forest produce.”

Besides these, there are a few scientific reasons that apparently go to support the official view. The presence of forests has a marked tendency to lower the temperature of the hot climates. Their foliage offers an immense warmth-radiating surface, resulting in plentiful rain. Their roots loosen the soil, and thus contribute to its fertility. “Their thick canopy of verdure also prevents the rays of the sun from penetrating to the ground and absorbing the humidity,” and thus become parents to perennial sources and rills that become instrumental in adding to the richness and plenty in the neighbourhood.<sup>28</sup>

<sup>26</sup> *Some South Indian Villages*, p. 18. Madras University Press and Humphrey Milford.

<sup>27</sup> *Suggestions regarding the Management of Forest Lands in Kulu*, p. 18. By Messrs. Brandis, Baden-Powell, and Stenhouse. A Joint Report, dated 11th November, 1876. Calcutta, Superintendent Government Press.

<sup>28</sup> *Extracts on Forests and Forestry*, pp. 80ff. Compiled by N.A. Dazell, M.A., Conservator of Forests, Bombay. 1869. Edn. Soc. Press.

I can multiply the list of benefits to be derived from the forests of the land. I can never hope to minimise the importance of the timber supply of the land, and of forest produce, which Shaw Wallace, Ralli Brothers and other companies have monopolised in exporting to foreign countries, on the other. But my chief concern is, admitting the financial results of this process of forest conservation, that it is high time to realise the detrimental effect which it is capable of as far as the cattle-stock of the country goes. It is here that the Government is blind to a damaging influence which cannot be actually ascertained in rupees and annas, simply because they rejoice over a perceptible and advantageous rise in the income of the revenue returns.

The official view again confronts us here:<sup>29</sup> "The fodder question is now assuming importance in Indian economics on account of the restriction of grazing areas which has resulted from the rigid extension of the arable land, and the stricter conservation of the jungle as forest reserve." Here the Government is not totally blind to the ravages caused in India at the present time by a shortage in the supply of grasses, stubble and fodder. But they explain the situation in their own characteristic way.<sup>30</sup> "The Agricultural Department have already tended to increase the fodder available, since improvements in the yield of grain crops involve simultaneous increase in the yield of straw. But more and more attention is now being devoted directly to the problem of fodder raising and storing. Research has shown that several weeds hitherto regarded as troublesome intruders in the fields, can be utilised most advantageously as cattle food." On the other hand, they take to task the public, who have an immediate and unchallengeable necessity for an increased supply of grasses and fodder, by saying<sup>31</sup> that "from time to time the resulting friction between the Forest Departments and certain sections of the public

<sup>29</sup> *India in 1925*, pp. 191ff. By Professor Rushbrook-Williams.

<sup>30</sup> *Ibid.*

<sup>31</sup> *Ibid.*



has led to agitations of various kinds. This was particularly marked in the days of the non-co-operation movement." The public does indeed realise the province of Government as far as the forest administration goes, but it cannot help bringing moral pressure upon them and make them realise the urgency of the reforms necessary to throw open the forest tracts more extensively and liberally than heretofore for purposes of national grazing.<sup>32</sup>

We now come to the fundamental question of the respective rights of the Government and the people as far as the forest administration goes. I shall have occasion to discuss through the columns of this journal the important subject of the rights of property in land in India from ancient times to the present day. But here I limit my observations to saying that certain specific rights of the people have been deliberately ignored by the Government.

An official exposition of the rights of the Government in forests and their relationship to those of the people is put as follows:<sup>33</sup> "We are aware that the Government has reserved for itself proprietary rights in the forests and unoccupied waste lands, and as a matter of fact, before permission is given to break up forest land for cultivation, the sanction of the Forest Officer (since forests have been transferred from the district authorities) is obtained." But immediately after this statement, the three authorities who drew up this report, including Mr. (now Sir) Robert Baden-Powell than whom no better authority on land tenures in India can be found at the present day, observe that "under such a state of things it is obvious that difficulties may arise hereafter regarding the rights of the Government and the Raiyat<sup>34</sup> in forest land, from which the latter derives a certain revenue while the former is the proprietor. Such doubts might be obviated by an

<sup>32</sup> In this connection see the problem of cattle requirements to national purposes ably discussed by Dr. Thomas Nixon Carver in his *Principles of Rural Economics* (Ginn & Company, Boston).

<sup>33</sup> *Suggestions regarding the Management of Forests in Kulu*, p. 6.

<sup>34</sup> Local landed proprietor.

early demarcation of the forest lands in which Government intends to maintain its proprietary rights." This only touches the fringe of the problem. The Government has acquired at the present day a statutory proprietary right in all forest and waste lands. On this point more light is needed as regards agelong rights and arrangements between the Government on the one hand and the body-politic on the other. But it is patent by this time that certain immemorial rights of the landed proprietors have been jeopardised if not literally abrogated during the process of forest conservation.

A most interesting feature of the forest administration in India is admirably summed up by Mr. Lyall when he discussed the rights of the Government and the reforms needed as far as this phase of their activity goes.<sup>35</sup> I quote his observations in full as they are at once official pronouncements, but characterised by moderation and a clear perception of the rights of the people. "The state has a right of improvements or reclamation of the waste, that is, waste land cannot be broken up for cultivation, or otherwise appropriated except with its permission or by its orders. Again, the state, for the purpose of forest conservance, has a right to preserve or prohibit exercise of common in a part of the forest, . . . . . but it is bound to exercise these rights and that of improvement, so as not to unduly stint or disturb the rights of use previously existing. I believe the above statement of the mutual rights of the State and the landholders to be in agreement with the view of their rights entertained by the Kulu landholders since the first regular settlement. *It is the old customary tenure of the country modified by arrangements made at first settlement by our Government. It may eventually be necessary to alter it, and confer a proprietary right in the waste of a more perfect (?) on the landholders.*"<sup>36</sup> But even Mr. Lyall is not prepared to recommend immediate measures in this respect because "since once done, it could not be undone; if done at all, it should be done

<sup>35</sup> *Settlement Report*, para. 102. Quoted *Ibid.*, p. 12.

<sup>36</sup> The italics are mine

deliberately some years hence with the experience gained."<sup>37</sup> Here is to be seen the tenacity of the Government to cling to precedent and past tradition whatever may be the urgency to reform a particular feature of their administration realised by themselves. Order and evolution have outrun practical utility and general beneficence.

It may be noted in passing that there are specific advantages to be derived in case forest grasses are thrown open to cattle for free grazing. Besides the actual natural grasses from which inestimable benefits are to be derived by the cattle, there are other kinds of winter fodder which the forests supply to the agricultural population. For example, in the Kulu forests of the Punjab,<sup>38</sup> several trees are chopped for cattle fodder. They include the three kinds of oak, olive, two species of elm, hare-chestnut, mulberry the *figus vigosa*, and others, the leaves of which "are stored in autumn and given to the cattle when dry." This source of winter fodder is now denied to the needy agriculturist by the departmental rules of forest conservation. Again, the droppings of the leaves of the forest trees supply him an ample source of litter for manure. Green manure has been scientifically proved to be one of the best manures and the green compost with the human compost is one of the specialities of Chinese agriculture. Even in our country it occupies a place next to that of farm-yard manure. Besides this, the green droppings of the forests supply excellent litter to the farmer for the preparation of a synthetic farm-yard manure.<sup>39</sup> This advantage which is sure to act beneficially upon the productive capacity of his fields is again denied to the farmer.

Before we pass on to the methods of increasing and enriching our fodder supply as such, it is necessary for us to inquire into

<sup>37</sup> *Ibid.*

<sup>38</sup> *Ibid.*

<sup>39</sup> Cf. the present writer's article on Natural Manures in India. (*Indian Review*, Madras, March, 1927.) See also, Dr. Voelker's article on *Manure* in the *Encyclopædia Britannica* (XI Edition) for a statistical measurement of the respective yields of farm-yard manure, etc.

the operation of the grazing rules and fees. We have already seen that there is a definite premium put upon grazing offences by the tightening up of the extent and management of the grazing areas in the forest tracts.<sup>40</sup> Of late there has been a discernible increase in the number of animals grazed on payment. The management of these grazing areas is carried on in a peculiar way. For example, in Madras,<sup>41</sup> reserved forests in a district are divided into grazing blocks. The extent of each block varies according to the local conditions, and may include either one reserve, several reserves, or even part of a reserve. Each grazing block is divided into several compartments, and one or more compartments are closed to grazing or browsing alternately for definite periods. The scale of fees are as follows:

- (a) Buffaloes            ..            ... 6 annas per head.
- (b) Bulls, cows, horses, and  
asses                    ...            ... 3 annas per head.
- (c) Sheep and goats            ...            1½ annas per head.

Permits are hard to be obtained from the local officers, and it is not unfair to recognise the amount of corruption of the petty officials deciding these transactions which are mostly based upon the holding capacity of the respective blocks. Demand for grazing areas is always in excess of the provision available, and the charges are naturally heavy in the rural areas where the money economy is not extensively known and payment in coin is generally looked down upon as burdensome and necessary to be avoided.<sup>42</sup> In the case of animals from other districts or from districts reserved for cattle breeders, which have a seasonal exodus

<sup>40</sup> These disputes are age-long. I was greatly amused over this perennial source of friction between the Company and the public during the years 1766–1802 in the Northern Circars, and the records of the India Office Library dealing with this period, on which I am at present working, have ample material to supply

<sup>41</sup> *The Forest Manual*, p. 297. Madras, Superintendent, Government Press, 1906. Rules and Conditions regarding the Issue of Grazing Permits.

<sup>42</sup> We can induce an average farmer in an out-of-the-way village to part with ten or fifteen seers of grain, but it will be long to make him realise that a money commutation of two or three annas is more advantageous.

to the forest areas, as has been pointed out above, "*rates in excess of the above*"<sup>43</sup> may be levied with the prior sanction of the Government. A nicer distinction is drawn as regards the calves. Those under six months entering the grazing blocks in the first half of the year are grazed free, while half charges have to be paid for the second half. While the same have to pay full rates in case they enter the grazing blocks during the second half of the year.<sup>44</sup> I am certain that with the exception of a few local changes, the administration of the forest areas is practically the same as that of the Madras Presidency.

### Methods of Improving Fodder.

The problem of improving the fodder supply of the country will be discussed under three heads: more fodder and better fodder; reserve fodder and fodder storage; and transport facilities for fodder. In one of the statistical tables we have seen that there is an appreciable increase in the amount of fodder crops raised in our country. But I had occasion to show that they are inadequate to national purposes. This is rendered all the more inadequate by the fact that with the increase of the number of cattle wealth there is a growing demand for fodder supply. A like increase in the population of the country is operating to reduce the amount of pasture lands available on account of the extension of arable cultivation, while from the opposite side the stricter administration of the forest department is chopping off all available means of natural grasses. We have to co-ordinate all this contradicting evidence, and try to eliminate the deficiency of fodder supply in our national economy.<sup>45</sup>

<sup>43</sup> The italics are my own.

<sup>44</sup> It is to be wondered why this beneficial delicacy which cannot be explained has been shown in favour of calves entering the grazing blocks in the first half of the year.

<sup>45</sup> I was unable to find any better and more authoritative study of this problem than that of Mr. Howard's *Crop Production in India*, to which reference has already been made. Section IX (pp. 80—86) headed "Some Aspects of the Fodder Problem," even though not as long as we would have desired it to be, is excellent and will repay perusal.

The whole problem can be summed up in one phrase "intensive cultivation." Our agricultural methods have long become antiquated. The potential fertility of the country has been long exhausted by an intermittent process of cultivation without imparting to the soil any kind of rejuvenating and resuscitating chemical constituents. But we are not denied any future hopes. Our country has two important factors operating in her favour. They are the immense solar energy and the temperature suitable to growth which are not to be found in the same degree in many of the countries of the world except in China and Japan. But we are not able to recognise them in the first instance, and use them to advantage in the second. In this respect, Japan and China have outstripped us in the race for agricultural efficiency. The reasons for this are mainly two. The one is that under a more sympathising and liberal Government we could have achieved more, and better. The second is the general ignorance of the masses. Better processes of improved agriculture are to be used. The recent national upheaval has done something to lift up this mysterious veil of ignorance, and already there are articulate signs of inquiry on the part of the agriculturists who are beginning to doubt whether we are "sinking." But more could be done by the state in this matter of popularising improved methods of intensive agriculture, and thus assist the civic activities of the body-politic.

More and better fodder can be obtained easily, provided there is a little of judicious thought given to the subject. Our agriculturists should abandon the idea that they need not "raise" any crops for the supply of fodder to the cattle, which are now to subsist on the grasses of the land if there are any, and, in the second alternative, on the hay left out after the removal of the corn and stored up for the dry season. A system of alternate crops and rotation of pastures and fodders on the one hand and food-crops on the other should be adopted. In this respect we have to copy from the West a little. I believe that our agriculture has come to that stage when we have to thoroughly

examine the situation and see whether we are not to abandon the traditional methods of continuous cultivation and take to the system of rotation of crops. This system has a very beneficial effect upon the soil and the yield. For a slight decrease in the money value of the yield of a particular field when we raise a fodder crop instead of a food crop, the incubus of a continuous annual raising of food crops upon the soil is removed. There is a breathing space for the soil to regain its fertility and thus get ready in a more fit condition for the coming year's food crop. In this connection it is well for us to remember that fodder crops such as lucerne, jowar and others have a direct nutritive value to impart to the soil. This is a profitable way of bettering the prospects of cultivation, while ensuring a richer supply of fodder for cattle to subsist upon.

The second method to increase the quantity of fodder in India is to find out a good number of fodder crops, which can give us a variety of alternate crops according to the requirements of local conditions and varying seasons. This selection of suitable fodder crops to be raised in an alternate scheme of food and fodder crops which has to be popularised, is sure to supply us with an efficient stock of reserve fodders for consumption by cattle in less fortunate seasons, and thus spread our fodder supply evenly throughout the year. Already there have been certain steps taken by the Agricultural Department in this direction, and we will not grudge to give them credit for that. The experimental farm at Pusa has done a lot in this respect of discovering suitable fodder crops. In the Central Provinces a species of bamboo is being grown for fodder purposes. Prickly pear is being converted into fodder by a simple process in the Deccan. Interesting experiments are being carried on in Bombay, inaugurated by the ex-Director of Agriculture Dr. Harold H. Mann, on the best way of developing the stray grasses on the uncultivated slopes. In the Agra Division one of the hot-weather crops, the *bisurai* (*Pleuchea lanceolata*) has been popularised. New fodder grasses such as the elephant grass is being popularised in

the South, while an African variety *Pennisetum clandestinum* is making fairly satisfactory progress in the North-West Frontier Province. We have, again, a variety of fodder crops, such as maize and millets, which take the place of the grasses of the West; and lucerne, berseem and Persian clover are good as foster-crops, but it only remains to extensively popularise them.

There is one difficulty with this method of progressive popularisation. Variety of indigenous fodder plants is not always forthcoming. A certain amount of acclimatising exotic varieties to Indian conditions has to be carried on. This is entirely the task of the Agricultural Department. This is not a difficult task for the specialised students working on a model farm with all the latest chemical accessories, and we can well trust them in their results. The difficulty arises when they are passed on to the actual agriculturist. The traditional uniformity of Indian agricultural methods is such that any newly discovered methods of agricultural production is not readily swallowed by the average peasant. Even the greatest amount of persuasion and demonstration (I do not suggest coercion) at times fail to convince him of the adaptability of the new modes. But when once he is convinced of the useful results of these new processes he will not only be too pleased to have further doses of improvement, but it will be next to impossibility to dislodge him from his new position. Only his robust faith falls to the ground in case of any failure, whether purely local or accidental, and there is once again a great swing to the other extreme of traditional cultivation. Such being the case, the greatest measure of caution and analysis has to be used before an innovation is set on foot for popularisation. The conditions of an experimental station are quite different from those of a stray average field. The capabilities of the farmer are limited, and it is generally not quite likely for him to take the cue from the specialist and adapt himself to the changed conditions. An exhaustive and accurate study of local conditions is extremely desirable before this new process which was tried in a corner of the country under ideal conditions and found successful



is attempted to be acclimatised. Any slight variation in the promised results is sure to lead to lamentable consequences.<sup>46</sup>

Far more difficult than the quantitative and qualitative increase in the fodder supply of India is the problem of reserve fodder and fodder storage. This is quite a consequence of an appreciable rise in the supply of fodder at the present day which we have discovered above. Mere glutting of the markets with an abundant supply of fodder during the period following the removal of crops is at its best capable of a temporary excess of supply of fodder which the cattle cannot possibly exhaust at that particular moment. May be, a recognisable portion of it will have to stink and thus run to waste. On the other hand, during the dry months when the hot winds parch the fields and ever-greens are turned into deserts, the necessity for fodder will become all the more acute. The Famine Commission raised this question long ago, and the urgency of the measures to be taken to secure a more steady and even supply of fodder throughout the year is urged upon, but optimum results are never forthcoming so far. The *spreading* of fodder supply throughout the whole year can be done in two ways:

- (1) The first will be to discover better kinds of fodder which can stand the ravaging effects of the tropical sun. They must be particularly of an enduring nature, and in this respect they must depend upon the improved quality of the fodders raised.
- (2) The second way of solving the problem is to see whether fodders could be raised in different parts of the year. This would mean a readjustment of the present-day agricultural operations. Assuming that fodder crops

<sup>46</sup> It is within the observation of the present writer that artificial fertilisers have been thoroughly discredited in certain parts of the Andhra province, simply because in one village a whole crop has been destroyed by a disproportionate admixture of the chemical constituents. It will take a long time before confidence could be restored, and that openness of mind with which this experiment has been started is hard to be attained once again, whatever may be future success.

will be raised in India just in the manner in which food-crops are raised, or, rather to put it more effectively, assuming that fodder-raising is recognised to be as essential a business in the national economy as the supply of food-grains, we have to see that they have to be raised at different parts of the year, so that wastage possible under the old regime is eliminated, while in this instalment basis an effective way of meeting the demand for fodder is supplied. Incidentally, this method solves the problem of storage accommodation.

Mr. Howard sums up the situation as follows:<sup>47</sup> "India has no leguminous hay at present, but there is no reason why this state of things should continue. Lucerne, and berseem make excellent hay, provided care is taken to preserve the leaves (the most nutritious portion) during the curing process. This can be done by completing the drying process in small heaps and taking care to stack the finished product in the early morning before it gets brittle." A little more care is sure to give us good results, and in the opinion of this expert we can have a good leguminous hay in the *shaftal* hay now popular in the Punjab.

Transport facilities figure prominently when we have tried to solve the quantitative and qualitative supply of fodder in the country. Any industry is to be based upon the favours of local conditions. Where localization takes place, there is the dogging presence of unfavoured parts. Even in the raising of fodder crops in India certain parts of the land are comparatively more favourably situated than others, and hence are more conducive to fodder raising. Again, farmers in certain localities are more inclined to take to this kind of improved agriculture, while others are not so advanced or enterprising. To equalise distribution we should command adequate and cheap transport facilities. Easier transport facilities have always been a favouring factor in civilisa-

<sup>47</sup> *Op. cit.*, p. 85.

tion and material prosperity. Canal and river transportation are of essential importance in this connection. Something in the nature of a local bounty is needed for this new feature of agricultural activity to thrive. It will be practically a strange thing for an agriculturist to think of buying, rather of importing, fodder from an outside district or agency. He had been long accustomed to be self-sufficient. His forefathers have been self-reliant from immemorial times, and his fields are supposed to give his livestock sufficient menu for sustenance. If there were any deficiency, he could feed them upon stray stubble and natural grasses. To this deluded farmer, paying a price for fodder imported from an outside district, which must be naturally heavy, is unthinkable. Hence a competitive price alone can hope to have a moderating and convincing influence upon him. A cutting of price is possible in case there is cheap transport. Water transport is decidedly cheaper than transport by animal power, while in this connection we cannot think of transport by the rail-road. The best thing would be in the circumstances for the local self-governing bodies to lower the ferry-rates, and for the Government Public Works and Irrigation Departments to show a partiality in favour of fodder transport. This is sure to act in a double way to increase fodder supply: in cutting down the price level and in inducing the agriculturists to take to fodder-raising on account of this allurements in terms of coin. A reduction in price means a reduction in the feeding costs which is sure to put up the demand for fodder at a very high pitch. Mr. Howard hopes<sup>48</sup> that the Army can be of some use in the agricultural development of the country, especially in the Punjab, by aiding in the transport facilities, and thus it would seem that a partial exoneration of the heavy capitalised and recurrent non-votable expenditure is capable of being obtained.

### The Future.

The future is wholly one of hope and effort. Several national forces have to be mobilised to achieve this important end, without which our agricultural activity will have to sink down. We must have robust faith in the future. Constant propaganda and education should be drawn to our assistance, and in this respect the Co-operative and the Agricultural Departments and the non-official co-operative organisations can help to improve the situation in a large measure. Next we have to work with great perseverance and hope to gain optimum results. But the greatest part in this task rests with the more liberalised activities and financial support of the Government. The following will be the three main lines along which we have to work in trying to alleviate the agricultural depression of India at the present day:

- (1) The forest policy of the Government of India must have a lot of liberalised orientation. Forest conservancy rules should be relaxed, new measures to acquire further forest zones under administrative control should be altogether abandoned, while every effort should be made to break up the existing ones and throw them open for cattle and fodder raising. The grazing laws should be humanised, and payment-regulations relinquished. There does not seem much reason why Indian forests should yield more than a crore and a half of rupees annually, while those of the U.S.A. and Canada are a charge upon the federal budget.<sup>49</sup> This only indicates the effect of the source and nature of the Government of a land on its national wealth. A paltry asset on the balance sheet which the forests supply to the Government of India should not outweigh the inestimable benefits to be conferred upon the cattle-stock and

<sup>49</sup> Cf. Rushbrook-Williams : *India in 1925* Section dealing with the forest administration.

agricultural operations in the country by a more liberalised administration of the forests and the waste lands.

- (2) Statutory legislation is a crying need as regards prohibition of utilising village commons, pasture-lands and waste lands for purposes of arable cultivation. The latter should never weigh as a serious consideration. Instead of increasing agricultural output, this process, if allowed without hindrance, is sure to react upon the existing sources of motive-power and irrigation facilities, and bring about an initial dissipation and an ultimate collapse of the agricultural industry of the land. The Government ought not use the powers vested in them by law of splitting up waste lands and awarding them to stray and deserving applicants, mostly in the shape of rewards to people who have done them some sort of service or other.<sup>50</sup> On the other hand, they should buy all available patches of land and specially allot them for purposes of grazing in common.<sup>51</sup> In this respect the local civic authorities can co-operate with the Government in improvising sufficient pasture lands for each village, in the manner in which ancient Aryan usage required.

- (3) Our agricultural machinery and processes should be thoroughly overhauled. An alternate mode of raising food-stuffs and pastures, rotation crops and reserve fodders must replace the old traditional method of continuous cultivation of food-crops. Above all, our agriculturists should be made to realise that fodder-

<sup>50</sup> In this connection, it is proper to recollect that Government has alienated waste land and culturable waste in favour of most of the demobilised armies which have seen service in Mesopotamia and in the open front in the Great War.

<sup>51</sup> *Bharata Sakti* (p. 17) by Sir John Woodroffe. Madras, Ganesh & Co.

raising is a job in itself and as vital to national interests as food-crops themselves. New fodder crops must be discovered and popularised, and in this connection the Agricultural Department should be more enterprising and convincing. Reserve fodders and fodder storage must be incorporated into our agricultural operations, while cheap transport facilities are to be offered to effect a decent cut in the price level of fodder and thus lower the feeding costs.

*Note.*—We regret that the table on p. 156 does not include for comparison with India any old country except Denmark, which is a large exporter of dairy produce. All the other countries are new countries with sparse populations and large exporters of beef.—THE EDITORS.

---

# THE INDIAN TINPLATE INDUSTRY: A STUDY IN COMPARATIVE ADVANTAGES

BY

H. L. DEY,

*Lucknow University.*

The idea of starting a tinplate industry was conceived during the Great War. The circumstances of its origin were exactly similar to those of many other industries—the difficulty of importing tinplate for military and commercial purposes and the hope of large profits offered by an indigenous industry secure from the risks of foreign competition for, as was then imagined, an indefinite period. Two big firms, the Burma Oil Company, Ltd., and the Tata Iron and Steel Company, Limited, were greatly interested in the manufacture of tinplate, the one as the consumer of tinplate and the other as the producer of tinplate bars, which constitute the most important raw material of the tinplate industry. Estimates and negotiations were completed by 1919 and the Company was registered in 1920. The entire share capital of the new company was taken up by the two firms—two-third shares valued at Rs. 50 lakhs by the Burma Oil Company, Ltd., and the remaining one-third costing Rs. 25 lakhs by the Tata Iron and Steel Company, Ltd. As the years 1920 and 1921 progressed, it was found that the share capital was inadequate on account of adverse exchange, rise of price of American materials, enhancement of Indian import duties and finally the use of bigger and more elaborate plant and machinery than were originally contemplated. The result was that the additional capital needed was raised by issuing debentures worth Rs. 1,25,00,000 at 10 per cent, the whole lot being taken up by the bigger of the shareholders, the Burma Oil Company, Ltd. The total capital was now

Rs. 2,00,00,000, of which nearly Rs. 1,50,00,000 represented the block, and Rs. 50,00,000 working capital.<sup>1</sup>

The factory is located at Golmuri, near Jamshedpur. The first mill was started on 18th December, 1922, with a full crew of 54 Welshmen and 2 foremen. Over a hundred Indians were immediately put under training. In less than a year, Indian workmen had been sufficiently trained to make it possible for all the six mills being put into operation by the end of 1923. But it was in 1924 that all the plant could be completely worked. So far as the results could be judged by the output alone, they exceeded even the most sanguine expectations of the promoters of the company. In 1923, the output was 9,600 tons and in 1924, the first year of full working, 20,763 tons. In the succeeding year the output rose to 29,555 tons, and in 1926 to 35,000 tons. It is worthy of note that the original estimate of full output had been put down at 28,000 tons, so that in the course of a short period of 2 years of full working, the results proved to be better than the estimates. A subsequent estimate placed the figure of full output at 36,000 tons, which was reached in 1927, that is, in the course of four years of full working.<sup>2</sup> The rapidity of the growth was so striking and remarkable that the Tariff Board in its Report of 1927 was constrained to record that the tinplate industry afforded "a notable illustration of the industrial progress attainable within a short period under the policy of discriminating protection adopted by Government."

This brief survey of growth, as shown by output, would no doubt lead to a *prima facie* assumption that the tinplate industry of India enjoys the benefit of some superior advantages which have made such strikingly rapid development possible in a manufacture which many other countries have failed to establish on any appreciable scale. On the other hand, the rapidity of the growth of a

<sup>1</sup> *Vide* Evidence recorded during Enquiry into the Steel Industry (1924), Vol. 2, pages 16, 27 and 86.

<sup>2</sup> *Vide* Evidence recorded during the Statutory Enquiry (1926), Vol. 7, pages 65-66.



highly technical industry in an industrially backward country like India, where most of the essential elements of 'productive power' like skilled labour, foremen, captains of industry and banking are lacking, may also raise a reasonable doubt in our minds as to whether all this outward development was not after all a mere spurious success due to the generous measure of assistance afforded by the protective tariff. Whether the foundations of the industry have been set upon solid grounds of potential superiority or merely upon the artificial prop of protection, may be found out by analysing the comparative advantages that are enjoyed by the industry in India.

The tinplate industry may be regarded as a branch of the steel industry and, therefore, in point of comparative advantages, they stand more or less exactly on the same footing. In the tinplate industry, no less than in the steel industry, the advantages are potential, not actual. It may, therefore, be held with reason that since the steel industry has been found to enjoy potential superiority, the tinplate industry is also presumably benefited by that potential superiority of the main industry. Nevertheless, the conditions of the two are not exactly on a par, though there may be many points of similarity. For in the first place, the raw material of steel, that is, pig iron, involves a much less difficult process of manufacture than that of the tinplate industry, that is, steel. The former has been already a commercial success in India for nearly two decades, while the latter is still dependent upon the artificial prop of protection. Secondly, tinplate manufacture represents a highly technical process of conversion, and is undoubtedly a great deal more difficult and complicated than general steel manufacture. This is proved by the fact that highly developed industrial countries like France, Germany and Japan, who have long succeeded in the general steel manufacture, have had only indifferent or totally disappointing results in the development of tinplate manufacture. Accordingly, it is necessary to study separately the question of comparative advantages in the tinplate industry.

Among the raw materials of the industry, the principal are the steel bars, which account for about 40 p.c. of the total works costs.<sup>3</sup> Now, so far as the Indian tinplate industry is concerned, the sheet bars are supplied by the Tata Iron and Steel Company, Ltd., under an agreement at a price which was for some time actually lower than the rate ruling in foreign markets. It is necessary to note that the Tata Iron and Steel Company was one of the sponsors of the Tinplate Company and holds one-third of the ordinary shares. It is interested in the development of the tinplate industry as offering an outlet for a considerable part of its products. Accordingly it will be seen that heavy concessions are made by it in the supply of sheet bars to the Tinplate Company. The Tinplate Company up to 1926 paid to the Steel Company a provisional price equal to the f.o.r. Swansea price. If, at the end of the year, it were found that the cost of production of tinplate exceeded the price of imported tinplate, half the loss was to be borne by the Steel Company. If there were a profit due to the cost of production being below the imported price, half the profit was to be paid to the Steel Company. Accordingly as long as the tinplate manufacture in India did not attain as high a level of efficiency as in foreign countries, the tinplate manufacturers in India were assured of an adequate supply of sheet bars of the right quality at a price actually below the rate that might be current in Wales from time to time. It is, however, to be noted that the cost of manufacture of tinplate, as provided for in the agreement referred to, included interest on debentures representing fixed capital at 10 p.c. and on share capital at 6 p.c. In consequence of this agreement, the Tinplate Company was able to secure its sheet bars at a price considerably below the Swansea price. Thus, on the 7th April, 1923, the f.o.r. Swansea price of sheet bars was Rs. 150 a ton, while the price payable to the Steel Company was Rs. 132 a ton. Similarly, on the 4th August, 1923, the price

<sup>3</sup> *Vide* Minutes of Evidence, Vol. 7, Statutory Enquiry (1926), pages 81-82. The total works costs were Rs. 312-762, and the cost of steel Rs. 115-839 or 37 p.c. of the total.

payable for Indian sheet bars was found to be Rs. 110 a ton as against an f.o.r. Swansea price of Rs. 137 a ton. The result was that the Tinsplate Company not only obtained its supply of sheet bars at Welsh rates, but also obtained a subsidy from the suppliers of the raw material.<sup>4</sup> This contract was to have operated for a period of 25 years. But in 1924, as well as in 1926, the Tariff Board declared the contract as extremely ill-advised from the point of view of the Steel Company, "both because it is to continue for the very long term of 25 years, and still more because it makes the price which the Company is to receive for the steel it sells depend on the efficiency with which the purchaser carried on his business." Accordingly, in 1926, the contract was revised and the price of tin bar was fixed at Rs. 84 a ton for 1926 and at Rs. 83 for the subsequent period of 7 years. This price was approximately the same as the price paid for tinsplate bars by the Welsh manufacturers.<sup>5</sup> Furthermore, this price of Rs. 83 comprised of the Steel Company's works costs of Rs. 60 and overhead charges of Rs. 23, which was regarded as quite reasonable for a semi-finished product like the tin bar. Accordingly, it is clear that in so far as the principal raw material is concerned, the Indian tinsplate industry enjoys equal comparative advantage with the Welsh industry.

Another important raw material, sulphuric acid, is also supplied by the Steel Company at a reasonable price. The other important raw materials are tin, pink meal, palm oil, zinc chloride, greases, tanned fleeces, brasses, cold roll, annealing boxes, and rolls. All these materials are at present imported. Tin which is next in importance to tinsplate bars, is at present imported from the Straits, while palm oil is bought from West Africa. In respect of both of these things, the Indian manufacturer is nearly

<sup>4</sup> *Vide* Report of the Tariff Board regarding the Grant of Protection to the Steel Industry (1924), pp. 125—28. Also Minutes of Evidence (1924), Vol. 2, pp. 25-26.

<sup>5</sup> In 1926, the price of Welsh tin bar was £6. 3s. 6d. which works out to Rs. 82. 4a. at 1s. 6d. per rupee.

in the same position as the Welsh manufacturer, as both have to import from the same sources. The Indian Tinplate Company, Ltd., use some 500 tons of tin in all. The only handicap in respect of the supply of tin imposed on the Indian manufacturer is the high import duty on imported tin, which actually came out to be Rs. 375 a ton in 1923, Rs. 450 a ton in 1924, Rs. 525 a ton up to January, 1926, and Rs. 250 since February, 1926. It is estimated that the consumption of tin per ton of tinplate is one-fifty-fifth of a ton. Therefore, owing to the import duty on tin, the Indian manufacturer's works costs are enhanced by Rs. 4 $\frac{1}{11}$ . When the finances of the Government permit it, the import duty on this essential material of a struggling and protected industry should be abolished. It may also be noticed here that the districts of Amherst, Tavoy and Mergui in Burma produce a certain quantity of tin, the last-mentioned district having produced 407 tons of tin ore and 217 tons of block tin in 1922. The tin ore is sent across to the Federated Malay States for treatment, although a small quantity is smelted according to primitive Chinese methods. The Geological Survey is of opinion that there is every possibility of the development of a good tin industry in Burma.<sup>6</sup>

Palm oil is also imported by both the Welsh and the Indian manufacturers from West Africa. It is an important material for the tinning process. Here also the Indian manufacturer has to pay an import duty of 15 p.c., and in 1925 the incidence of the duty was about Re. 1 per ton of tinplate. The Indian manufacturer holds that the oil palm of West Africa is suited for cultivation in India, and further that some suitable substitute also may be found out of the numerous vegetable oils produced in India.

All other essential materials, such as pink meal, zinc chloride, hot neck grease, gear grease, cold neck grease, tanned fleeces, brasses, cold roll and annealing boxes are imported from England. Accordingly, the Indian manufacturer here suffers from

<sup>6</sup> *Vide* Minutes of Evidence recorded by the Tariff Board regarding the Grant of Supplementary Protection to the Steel Industry (1925), pp. 142-3. Also the Geological Survey of India Report, Vol. LV, Part 4, 1924.

a distinct handicap in the matter of trade and freight charges as compared to the Welsh competitor. Moreover, the Welsh works get much bigger credit for the scrap under their contract with the suppliers of sheet bars. In a statement submitted by the Tinplate Company of India in 1926, the disadvantages on account of imported materials including tin were estimated to be Rs. 3.14 on account of charges and freight, Rs. 1.98 import duty on materials, Rs. 4.61 import duty on tin, or Rs. 9.73 per ton of tinplate. Leaving aside the import duty, the real disadvantages are, therefore, equal to Rs. 3.14 per ton.

We have also to count the indirect disadvantages consequent on the manufacturer being at a great distance from the source of supply of essential materials. These may be set forth as follows: Firstly, the experiments are more costly; secondly, home stores may prove of bad quality, in which case replacement takes a long time with the resultant stoppage of work; and, thirdly, a larger amount of capital has got to be tied up in home stores, for the Indian manufacturer has had to keep a reserve of three months' stores as against a possible fortnight or month's supply at Wales.<sup>7</sup> The net disadvantages including import duty are, as we have seen, Rs. 9.73 per ton of tinplate, and if the duties are excluded, the disadvantages shrink to a measure of Rs. 3.14 only. To this may be added the freight of tinplate from Golmuri to Calcutta, which is the principal market for Indian tinplate. This freight is Rs. 10 a ton. The total disadvantage on account of its being situated in India, therefore, amounts to Rs. 13.14.

As against this, we have to put on the credit side freight, insurance, landing charges, etc., that inflate the selling price of imported tinplate in India. In 1926, freight, insurance, etc., from the United Kingdom, cost £2 6s. 6d., which, at 1s. 6d., works out to Rs. 31 per ton. The landing charges amounted to Rs. 2

<sup>7</sup> *Vide* Minutes of Evidence, Supplementary Protection (1925), pp. 132-3. Also Minutes of Evidence, Continuance of Protection (1926), Vol. 7, p. 54.

12a.<sup>8</sup> Thus, the tinplate from the United Kingdom was worse off by Rs. 33 12a. on account of freight, insurance, landing charges, etc. It may, therefore, be said that the Indian manufacturer, on account of his nearness to the market, enjoys a net advantage over the Welsh competitor estimated at Rs. 14 to Rs. 20 per ton of tinplate. The advantage arising out of proximity to the market may be enhanced when some of the imported materials, such as pink meal or gypsum, tanned fleeces, tin, palm oil, tools and machinery, rolls, annealing boxes and stands and greases are produced in India, or in the alternative, when import duties on many of these essential raw materials are taken off in accordance with the recognised principles of scientific tariff-making.

Electricity and water, like steel bars, are purchased by the Tinplate Company from the Tata Iron and Steel Works, and these are derived at a reasonable cost. With regard to coal, it is to be noted that the tinplate manufacturers generally use second class steam coal, as the first class steam coal, which gives a localised heat, does not suit them. Now, although India is handicapped by the deficiency, both in quality and quantity, of her first class coking coal for metallurgical purposes, she has ample supplies of steam coal, which has been used under competitive conditions by many of her flourishing industries like the jute industry. No complaint has ever been heard from those who have been using second class steam coal for suitable purposes. The representatives of the Indian tinplate industry, as a matter of fact, stated before the Tariff Board in 1926 that they found the coal used quite satisfactory for their purposes.

In respect of the supply of labour, the position of the tinplate industry is more or less the same as that of the steel industry. From the brief outline of the operations of the tinplate industry sketched by J. H. Jones, it would seem that in spite of considerable mechanical improvements in the Welsh and more specially in the American tinplate industry, in the main rolling and tinning

<sup>8</sup> *Vide Minutes of Evidence, Vol. 7, p. 44, on the Continuance of Protection to Steel (1926).*

remain handicraft operations, which call for considerable powers of skill, experience, judgment and physical endurance. As in the open hearth department, and even more than there, the human factor is highly important for the success of the rolling and tinning stages of the tinplate industry. In the matter of labour, therefore, the Welsh tinplate manufacturers enjoy a marked degree of comparative advantages over their foreign rivals. As a matter of fact, when after the passing of the McKinley Tariff Act of 1890, the United States of America established tinplate works, there was a sort of literal transplantation of the industry from Wales to America. " Sometimes the whole equipment—rolls, shears, pots—was imported, and then was operated by Welshmen also brought over. Even though gradually the tinplate works of America felt the reaction of the new environment and were made more efficient by the introduction of automatic or semi-automatic devices, many of the handicraft operations are said to be still carried on by migrated Welshmen. Germany is still feeling insuperable difficulty in establishing the industry which demands physical powers, skill and experience of a high order, while some of the Russian tinplate works are still operated by Welshmen. That many of the technical operations of the industry require years of patient and strenuous training to master them will be clear from the fact that in some of the Welsh tinplate works, 13·6 to 21·6 p.c. of the males have put in over 30 years of continuous service, 8·5 p.c. to 17·1 p.c. over 20 years, 22 to 28 p.c. over 10 years, 15 to 22·2 p.c. over 5 years. Some of the physical difficulties of labour which are imposed by climate have no doubt been removed in the United States of America as well as in India by high capital expenditure. In America and still more so in India, it was found that continuous work in the hot mills during the hot summer months would be impossible. We are told that temperatures of 90°F. to 100°F. have been noted at positions where the rollerman and behinder usually stand, and temperatures of 95°F. to 100°F. at points between the furnace and the rolls. The position of the operatives is made still more unbearable by the fumes of burning

lubricating grease from the hot necks of the rolls, and coal and ash dust from the furnaces. This difficulty of strenuous manual work under extreme temperature has been overcome by a very generous, if not extravagant, scale of capital expenditure. "With buildings of a spaciousness exceptional even for America, elaborate equipment for blowing cooled air on to the operatives, water-cooled floors and furnace fronts, chimney stacks of unusual height for carrying away noxious fumes, and generous spacing of machinery, no expense has been spared to counter the difficulties attendant on continuing one of the hardest known manual processes through the Indian Hot Weather." Secondly, in so far as mere manual skill is called for in the different departments, suitable Indians are being trained up for different positions under expert Welsh instructors, and in these a considerable replacement of imported labourers by Indian operatives has taken place within the first three years of Indian tinplate industry. Some idea of the progress in this direction may be gathered from the fact that whereas in 1923, there had been employed 84 covenanted Welshmen for an annual output of 9,000 tons, in 1926 the number was reduced to 58 for an output nearly 4 times as large (35,000 tons). On the basis of the 1923 figures, this means a reduction of 83 p.c. in the strength of the imported staff in the period of 2 years. In consequence, the tonnage of output per head rose within the same period from 3.64 to 12.29, while the works costs per ton dropped from Rs. 459 to Rs. 316. It is also worthy of note that between 1924 and 1926, there was a decrease of uncovenanted hands from 2,540 to 2,323. It is only in the hot mills and the tin-house that considerable numbers of imported operatives are employed and will have to be employed for many years to come, for the former requires long practical experience and sound judgment of the temperature of the furnaces and the steel, and knowledge of the correct regulation of the rolls to suit different conditions of temperature and gauge, while in the latter an expert

<sup>9</sup> Vide Minutes of Evidence, Enquiry into the Steel Industry, 1924, Vol. 2, page 19.



is required to control the temperature of the tin pot. Accordingly, the Indian tinplate manufacturers are of opinion that entire replacement of covenanted hands by direct substitution can take place only in the departments of shearing and opening, pickling, annealing and warehouse, whereas in the hot mills and the tin-house there can be only dilution and not entire substitution. Thus, within three years, 1923—26, the number of covenanted hands in the hot mills was only reduced from 56 to 36, and in the tin-house from 12 to 10. It is the opinion of competent persons that it takes a period of 10 to 15 years to make a good tinplate roller. In the cold rolls, again, no Indianisation took place, though there were some Indians under training. On the other hand, in the annealing department, one European out of 3 has been replaced by an Indian, and in the pickling department, there has been Indianisation by dilution, i.e., by placing 1 European and 1 Indian together in charge of 2 pickling machines where formerly there had been 2 Europeans.<sup>10</sup>

An important point in connexion with climate and labour, to which attention should be given, is that in order to overcome the difficulties caused by extreme temperature on the one hand and lack of suitable Indian labour with great physical vigour and powers of endurance on the other, enormous capital expenditure has had to be incurred. The capital outlay on the plant and machinery in India has been admittedly on a much larger scale than in Europe and perhaps even in America. Sir Edgar Rees Jones, representative of the Welsh Plate and Sheet Manufacturers' Association, stated before the Tariff Board in 1926 that a similar plant could be set up in Wales for an initial capital outlay of £350,000 or Rs. 46 2/3 lakhs. In India, however, the capital expenditure incurred was between Rs. 150 to 160 lakhs in 1924, which was more than double the original estimate of Rs. 65 lakhs.

<sup>10</sup> Vide Minutes of Evidence, Tariff Board, 1926, Vol. 7, pp. 47—49, 140—50. It is, however, to be noted that there has been no replacement of Europeans by Indians so far as supervision is concerned, specially in the hot mills.

This huge amount of excess expenditure was due partly to exchange fluctuation and partly to enhanced prices and alterations in designs. The capital value of the plant was estimated by the Tariff Board, after allowing for depreciation and fall of prices, at Rs. 85 lakhs. The question now arises whether the disadvantage of higher overhead charges will be compensated in some other way. For one thing, it is pointed out that but for the special equipment and plant introduced into the Indian tinplate industry the labour difficulty would have been insurmountable and the summer heat would have prevented a continuous operation of the mills throughout. To meet these difficulties several special arrangements had to be made by additional capital expenditure.

In the first place, every operation has been split up into several stages so that they may be operated by semi-skilled workers without much experience. It is in this way that the element of experience, which has got to be acquired by a training of over 15 years in Wales, has been eliminated from nearly all jobs in India in so far as mere manual processes are concerned. Without this greater elaboration and simplification of the technical processes, therefore, Indians could not be employed in the different positions in less than 15 or 20 years. The result is that whereas 6 men are employed in Wales to look after 6 mills, in India they have to employ 18 men. For each man in Wales has to attend to 3 operations at a time, while in India each man has got to do one job all the time. It is only by this repetition method of the American mass production that it has been found possible to train up Indians for the jobs in 2 or 3 years' time. This involves more men and more machinery. In order to compensate for this, therefore, the Indian manufacturer has had to increase his output by having bigger and heavier rolls and bigger and heavier housings. Thirdly, in order to mitigate the hardships of the extreme temperature of the summer months they have to introduce cooling arrangements. Now, in so far as the more elaborate, expensive, and heavier machinery, and the employment of more men, are based upon the American standardised mass

production idea, and consequently lead to a more than proportionate output, the additional capital expenditure is in no way a disadvantage. It will turn into a positive advantage. But the same optimistic view cannot perhaps be entertained with regard to the capital expenditure that has been incurred in the provision of "buildings of a spaciousness exceptional even for America, elaborate equipment for blowing cooled air on to the operatives, water-cooled floors and furnace fronts, chimney stacks of unusual height," in order to counter the climatic handicaps. Unless the plant as a whole is capable of producing a much larger output than is usual for a similar plant in Wales, the high overhead charge due to the climatic factor will continue to operate as a permanent disadvantage against the Indian industry. The additional overhead charges may also be counterbalanced, apart from high output, by a possible reduction in the works costs consisting of costs of materials and costs above metal. In so far as the costs of materials are concerned, the biggest item is tinplate bar, and as we know there is no prospect within the next 10 or 15 years of the steel industry being able to offer its products at an appreciably lower rate than the foreign producers. With regard to costs above metal, the biggest item is that of labour, and here reduction is possible either by a reduction of covenanted hands or of uncovenanted hands or both. The Indian tinplate manufacturer is of opinion that within the next 10 years the imported staff may be reduced by some 33 p.c., while a smaller reduction may take place in the uncovenanted staff. In this connexion, it is necessary to bear in mind that Indian labour being comparatively cheap, there is a manifest tendency to employ more hands than are strictly necessary. The Indian manufacturers are generally found to be careless and uneconomical with regard to their labour force. In the steel industry, it was found in 1926 that in a labour force of 26,290, there was an unnecessary excess of no less than 6,290, or an excess of about 24 p.c. Hence, it is also reasonable to expect that as labour becomes more skilled and experienced, and experience and observation yield more definite basis of manage-

ment, there will possibly be a considerable reduction in uncovenanted hands also.

The Indian labour force is derived from all over the country. A large number of men has migrated to the seat of the industry from as far as Dacca and Sylhet. The company has built some 318 houses which provide accommodation for about half the labourers, while the labourers themselves, with the help of partial advances from the company, have built as many as 380 houses sufficient for the remaining half. Most of the labourers may be regarded as settled near the works site. They get free medicine and medical attendance. There is one small school at Golmuri, while they contribute regularly for the schools run by the Tatas at Jamshedpur. The area is under the control of the Jamshedpur Municipality, for whose maintenance also a regular contribution is made by the tinplate manufacturers. The average wage of an Indian is Rs. 32 a month, and there are some Indians who earn as much as Rs. 250 per mensem. The rates of wages prevalent are stated to be higher than those in other parts of India. Judging by comparison with other places, the labour conditions appear to be fairly satisfactory. The labourers are said to be well-fed, well-clothed and well-housed. The monthly wages bill of the Indian employees amounts to Rs. 1 lakh, and out of this, Rs. 30,000 or about one-third is remitted by the labourers through the post office to their relations at home. There has been no labour trouble at Golmuri since the inception of the tinplate works, and this is partly at least due to satisfactory labour conditions. Perhaps a further testimony in the same direction is borne by the fact that there is no labour organisation at Golmuri, which contrasts very strongly with the perfect type of Unionism prevalent among the tinplate workers of Wales.<sup>11</sup>

It is now necessary to enquire whether there is a sufficiently big market to justify the setting up of a tinplate industry in this country. In the three years 1923-24, 1924-25 and 1925-26, the

<sup>11</sup> *Ibid*, pages 146—148, 184—186, 191—95.

total consumption of tinplate in India was 56,000 tons, 59,000 tons and 60,000 tons respectively. Of this, nearly 40,000 tons are consumed by the oil trades and the rest by miscellaneous users, such as tea packers and biscuit manufacturers. It is estimated that so far as the present level of tinplate consumption goes, the normal annual increase in consumption may be put down at about 1,500 tons, so that in about seven years' time the total consumption may expand up to somewhere near 70,000 tons. Now the present capacity of the only Indian tinplate works in existence is 36,000 tons per annum, and this maximum output has already been attained. In so far as this particular firm is concerned, there is an insured market for 75 p.c. of its output. Under an agreement, the Burma Oil Company will buy from the Tinplate Company at least 28,000 tons of tinplate every year. In 1925 and the first five months of 1926, its purchase was actually 87 and 83 p.c., respectively, of the total output of the tinplate factory. With regard to the balance of 25 p.c. of the output, amounting to 8,000 tons, the company has only to capture a portion of the indigenous market for the remaining 24,000 tons which are at present imported. Therefore, in so far as the present scale of production is concerned, there is a guaranteed market for 75 p.c., and more than enough scope for the sale of the remaining 25 p.c. in the indigenous market.

A second point which is of particular importance to the student of tariff is, whether the present or the potential market is large enough to afford scope for the existence of several representative firms so that vigorous internal competition, which is the greatest incentive to progress and efficiency, may be encouraged. We have noticed that so far as the present scope for the consumption of tinplate goes, the annual offtake is not likely to exceed 70,000 tons within the next 7 years. And, therefore, within this period there will be hardly room for more than 2 plants of the same size as the present one. Judging from the huge capital outlay that has been made in the present plant, it would appear probable that the existing firm would make necessary

extensions to capture the entire market in India. Indeed the layout of the plant has been so designed as to admit of its being readily doubled in size, so that there might be ultimately an output of 72,000 tons or more than India's entire demand.<sup>12</sup> Accordingly, it would seem that more or less perfect monopolistic conditions are likely to arise in the supply of tinplate in India. Under such circumstances, there would be great danger of either the perpetuation of inefficient methods screened behind the tariff, or the exploitation of the tariff for unusual profits at the cost of the consumers. The history of American tariff is replete with instances where the tariff was exploited by industries even when they had outgrown their infancy. This has been shown to have been the case, for a period at least, with American steel and tinplate industries.<sup>13</sup> It may, therefore, be held with reason that so long as the market for tinplate in India continues to be so narrow in extent as to make it possible for a single plant to satisfy it entirely, there would be every likelihood of the rise of monopoly and the consequent, almost invariable, sacrifice of the interests of the consumers. And further, in view of the very slow-moving nature of economic tendencies in India both in the matter of consumption and production, there appear to be no prospects of an appreciable expansion of the market for tinplate in the near future. It is true that, in recent years, the canning industry has sprung into prominence in connexion with the export of agricultural products. In America, as well as in Europe, the remarkable development of the canning industry has led to a very considerable expansion of the tinplate industry. And, therefore, the development of a canning industry in India, in connexion with extending the scope of her agricultural output and export, may extend the market for tinplate much beyond the present scale. And it is also notable that the Royal Commission on Agriculture has emphasised the importance of the canning industry in connexion with the extension of the scope of agriculture and

<sup>12</sup> *Ibid*, page 35.

<sup>13</sup> *Vide* Taussig—Some Aspects of the Tariff Question.

development of the export trade. But, then, we should note that the reorganisation of agriculture and the results thereof are not likely to be completed within the next 8 or 10 years. Secondly, the kind of tinplate required for the canning industry is of a much superior quality to that used for the oil trades, and its production, therefore, is not likely to be undertaken with success in the near future. It may, therefore, be held that during the next 8 or 10 years the evils arising out of a market narrow enough to be controlled by a single producer, to which we have alluded above, may appear in India in connexion with the tinplate industry.

Another important aspect of the tinplate industry bearing upon the market, which should be noticed here, is the organisation of the Tinplate Company, Ltd. In this industry, vertical integration has been brought about from the start to the finish. The Tata Iron and Steel Company, Ltd., which supply the principal raw material, i.e., tinplate bars, owns share capital to the extent of one-third of the total, and it was in consequence of this interest in the ownership of the tinplate works that the Steel Company supplied tinplate bars to the former at a price which was below the import price and which was less than the costs of production of the Steel Company itself. And what was still more noteworthy, the price that the Steel Company received for the bars was, in a large measure, determined by the efficiency with which the tinplate could be manufactured. The effect was that a part of the loss on the sale of tinplate under competitive conditions was shifted back to the producers of the tinplate bars. This sort of integration, therefore, tended to conceal the real condition of the industry. Nor was this calculated to provide sufficient incentive to spur the tinplate producers on to the highest level of efficiency. This condition has, however, been discontinued since 1926. Similarly, as we have already noted earlier in the course of this chapter, there is integration of the producer with the consumer. The Burma Oil Company, Ltd., which contributed two-thirds of the share capital and took up the entire debenture issue worth Rs. 1,25 lakhs, is also the largest single consumer of

tinplate. At the present moment it purchases at least 80 p.c. of the total output. The agreement is that it will pay exactly the same price at which imported tinplate will sell in Calcutta. So far as this arrangement goes, there is nothing to take exception to. At the present time, due to a high protective import duty, the price of foreign tinplate has been considerably raised and, therefore, Indian tinplate sells at a remunerative price. But supposing there had been no import duty, what would have been the position of this consumer who is also the predominant partner of the industry? If it were to buy at a competitive price, it would suffer heavily as a shareholder. In that case, as a business corporation, it would have probably decided to close down the tinplate works. But before being goaded to take that extreme step, the consumer would have probably explored all possible avenues to save a concern in which he was largely interested as predominant shareholder and debenture-holder. One of the ways in which a substantial concession, though veiled, may be made to the producers of tinplate by the consumer is to accept as 'primes' those plates, which are really 'wasters,' and which, though nearly as useful as 'primes,' would never sell at anything like the same price as the latter. This possibility was hinted at by the representative of the Welsh Sheet and Plate Manufacturers' Association in his evidence before the Tariff Board in 1926. The implication is that the apparent prosperity and efficiency of the tinplate works would be a spurious one, which would vanish on the withdrawal of artificial support or the rise of competitive conditions in the industry. But it is worthy of note that this is only a remote possibility. In so far as the purchases of the Burma Oil Company are concerned, it pays only competitive prices for the wasters. In 1923 and 1924, the entire output of wasters was sold to dealers. In 1925, again, out of a total output of 6,011 tons, the Burma Oil Company took only 2,226 tons, the remaining 3,785 tons having been sold to dealers and foreign markets. Again, in the matter of price, there was on the average a margin of Rs. 94 between the price of primes and that of wasters, and the price



realized from the Burma Oil Company for wasters was Rs. 86 less than the price of primes. The difference of Rs. 8 is explained by the difference in the freight between the two sets of purchasers, the freight having been paid by the tinplate manufacturers, which was much smaller in the case of the Burma Oil Company.

Entering further into this question of interlocking of interests between the producer and the consumer, it may be pointed out that in so far as the producer is concerned, it is a matter of substantial advantage that he has been able to secure an assured customer for more than 75 p.c. of its principal output. There being no special price agreements, there can arise no objection from the point of view of the general tax-payer or consumer. On the other hand, this will mean considerable reduction in the expenses of selling organisation, which plays so important a part in modern industry and trade.

While we are dealing with the subject of wasters, it is necessary to state that this offers a serious disadvantage to the tinplate industry in India. The percentage of wasters to the total output in Wales has been estimated at 15 p.c., in America 22 p.c., and in India 20 p.c. In so far as this slightly higher percentage of wasters is concerned, it may be hoped that with greater experience and better training, the percentage will come down to the standard that is prevalent in Wales. The real difficulty, however, arises out of the conditions of the market. The Welsh producers can dispose of their wasters at a price which is only £3 or Rs. 40 less than the price of primes. But in India, owing to a comparatively weak demand for wasters, the margin is as high as Rs. 94 a ton. A part of the difference is to be explained by the fact that the price for primes and wasters mentioned above is the nett price. The tinplate manufacturers' market for a large quantity of wasters is as far as Karachi, and the freight has to be paid by the manufacturers themselves. If we include freight, the gross selling prices obtained in 1925 were Rs. 397 for primes and Rs. 328 for wasters, and in the first part of 1926, Rs. 401 for primes and Rs. 348 for wasters. Hence it would

appear that the disadvantage arising out of the wider margin between the prices of primes and wasters in India than that in Wales is due to the fact that while the latter has got the market for wasters in about the same place as that for primes, in India the market for wasters is at a very great distance from that for primes as well as from the works. Thus, for example, the freight from Tatanagar to Karachi where wasters are sold is Rs. 48 a ton, whereas the same for Calcutta is only Rs. 10. This itself accounts for a difference of Rs. 38 between the two prices. This disadvantage may gradually disappear with the development of the indigenous market for Indian plates. As a matter of fact, a sufficiently big market for wasters does already exist in India. A large part of the market is now in the hands of importers, which has had to be cultivated and gradually captured by Indian producers. While in 1923 and 1924, they had to export wasters, in spite of small output, in 1925 and 1926, nearly the whole was disposed of in the indigenous market. So, with the gradual expansion of the market which is diffused over a large area, some of the disadvantages regarding wasters are likely to disappear.<sup>14</sup>

A similar disadvantage, under which the Indian tinplate industry labours, is in the matter of disposal of steel scrap. The proportion of scrap to steel bars is about 37 p.c. The steel scrap produced in the factory amounts to some 10,000 tons a year. Now, in Wales, there are many steel works which buy this scrap from the tinplate manufacturers at a fair price, which was 57s. 6d. or Rs. 38½ in 1926. But in India the steel industry itself is in its infancy. There is no appreciable development of the manufacture of steel castings. Accordingly, there is no market for steel scrap in this country. The tinplate manufacturers, therefore, have to export their steel scrap to Italy to be used there in electric furnaces. After deducting the cost of baling and stacking, handling, freight, etc., they get a net price of Rs. 5 to Rs. 7 a

<sup>14</sup> *Vide* Minutes of Evidence, Statutory Enquiry re Steel Industry, Vol. 7, pp. 36—41, 168—73, 218—22.

ton out of their sale of scrap. This compares very unfavourably with the price of Rs. 38 1/3 received by the Welsh manufacturers. If the difference per ton of scrap is taken in round sum at Rs. 30, then the total disadvantage of the Indian tinplate manufacturer on 10,000 tons of scrap is measured by Rs. 3,00,000. This means that if the market for Indian scrap was as good as that of Wales, the Indian manufacturer could reduce his cost per ton of tinplate (on 36,000 tons) by Rs. 8. As long as, therefore, the scrap has got to be exported, this particular disadvantage will continue. But it must be noted that the tinplate industry is being developed in India as a part of the larger steel industry. Accordingly, if the steel industry in its different branches is established under the stimulus of protection, it may be expected that a sufficiently large market for scrap also will be established, and the disadvantage of the tinplate industry on account of scrap will disappear.<sup>15</sup>

---

<sup>15</sup> *Ibid*, pp. 140-141, p. 202, pp. 222-223.

# THE AMALGAMATION OF NOTE ISSUES

BY

G. FINDLAY SHIRRAS,

*Gujarat College, Ahmedabad.*

The amalgamation of note issues in Great Britain, which has been brought about by the Currency and Bank Notes Act, 1928, completes the monetary reconstruction which has steadily and successfully been going on since the Armistice. In April, 1925, the gold standard was restored and three years later in July, 1928, the Currency and Bank Notes Act became law. The Bank of England on 'the appointed day' is to take over the liability on outstanding currency notes, together with the Bank of England notes, the securities and the silver that are cover for the notes. There will be a fiduciary issue of £260,000,000, which is approximately the combined fiduciary issues of the Treasury and the Bank previous to the Act which became law on July 2. The Act permits the Bank to issue (in addition to bank notes of £5 and upwards) notes of £1 and ten shillings which are legal tender. The Act provides in section 2 (2) for the reduction of the fiduciary issue. In section 8, perhaps the most important in the whole Act, power is given to increase the amount of the fiduciary issue under certain conditions.

The Act follows closely the Report of the Cunliffe Committee, which was appointed in 1918 'to consider the various problems which will arise in connexion with currency and foreign exchanges during the period of reconstruction and report upon the steps required to bring about the restoration of normal conditions in due course.' The Committee reported that a minimum gold reserve of about £150,000,000 and that a corresponding amount of notes should be covered by 100 per cent gold, while the remainder could be fiduciary. In 1924 a Treasury Committee was appointed 'to consider whether the time has now come to amalgamate the Treasury note issue with the Bank of England note issue.' This Committee, agreeing with the Cunliffe Committee, reported that 'we anticipate that if a free gold market is restored at the end of 1925, the experience necessary to enable the amount of the fiduciary issue to be definitely fixed will have been obtained by the end of 1927. The transfer of the issue could then take place early in 1928.' Section 8 really does more than the Cunliffe Committee proposed. It is not merely to be the legal method of meeting a crisis. It is not a mere substitute for the old crisis letter. It is intended to be used as population increases, as earnings increase and as the standard of comfort increases. It is intended to be used to prevent undue stringency and in short not in a crisis but before it. Section 2 will enable the Bank to convert surplus gold into an earning asset by transferring a portion of the reserves to the Issue Department of the Bank and to withdraw the equivalent in securities held as cover for notes in that Department. Under section 6 earnings on securities in the Issue Department have to be paid to the Treasury and by this means surplus gold can be converted into an earning asset.

Another important section—section 11—gives the Bank of England power to require persons to make returns and to sell gold. The purpose of this clause is merely to prevent the hoarding of gold in England and it is not intended to interfere in any way with the holding of gold in England by or on behalf of foreign banks or foreign persons. Such gold as the latter will be immune

from the operation of the clause. The clause does not include such stocks as are required for the operations of the London bullion market. The Bank by this section will be able to increase its reserves by the purchase of gold privately held in great Britain.

The Act is published *in extenso* below. It keeps to the old fundamental principles of 1844 with such additions as have by experience been found to be necessary. The principle of the 1844 Act that the notes issued beyond the fixed fiduciary amount shall be covered by gold is maintained. Already under section 3 of the Currency and Bank Notes Act of 1914 the Bank of England may, with the permission of the Treasury, issue notes temporarily in excess of the legal limit. This provision is continued in the new Act as recommended by the Cunliffe Committee. The discretionary power to increase the fiduciary note issue can advisedly be left with the Bank of England as its notes are convertible into gold bullion for export, a check as Ricardo pointed out against a possible redundancy. It would have been open to objection if the fiduciary limit had been fixed once and for all. It is unscientific to make inelastic a monetary element which ought to adjust itself automatically to changes, the monetary machine being merely the handmaid of primary economic forces. It is also satisfactory to note that the Treasury will receive the profits on its own note issue, and the profits on the present issue of the Bank of England which in the past have accrued to that institution. The Bank has shown itself enlightened in this matter. It is indeed a relic of early times for the profits of a note issue to accrue to a private profit-making institution. The business of supplying legal tender should be a national function.

---

## CURRENCY AND BANK NOTES ACT, 1928

[18 and 19 Geo. 5. C. 13]

An Act to amend the law relating to the issue of bank notes by the Bank of England and by banks in Scotland and Northern Ireland, and to provide for the transfer to the Bank of England of the currency notes issue and of the assets appropriated for the redemption thereof, and to make certain provisions with respect to gold reserves and otherwise in connection with the matters aforesaid and to prevent the defacement of bank notes.

[2nd July 1928.]

Amendment  
with respect  
to powers of  
Bank of  
England to  
issue bank  
notes.

## 1.—(1) Notwithstanding anything in any Act—

(a) the Bank may issue bank notes for one pound and for ten shillings:

(b) any such bank notes may be issued at any place out of London without being made payable at that place, and wherever issued shall be payable only at the head office of the Bank:

(c) any such bank notes may be put into circulation in Scotland and Northern Ireland, and shall be current and legal tender in Scotland and Northern Ireland as in England.

(2) Section six of the Bank of England Act, 1833 (which provides that bank notes shall be legal tender), shall have effect as if for the words “shall be a legal tender to the” amount expressed in such note or notes and shall be taken “to be valid as a tender to such amount for all sums above” five pounds on all occasions on which any tender of money “may be legally made” there were substituted the words “shall be legal tender for the payment of any amount.”

(3) The following provisions shall have effect so long as subsection (1) of section one of the Gold Standard Act, 1925, remains in force—

(a) notwithstanding anything in the proviso to section six of the Bank of England Act, 1833, bank notes for one pound or ten shillings shall be deemed a legal tender of payment by the Bank or any branch of the Bank, including payment of bank notes:

(b) the holders of bank notes for five pounds and upwards shall be entitled, on a demand made at any time during office hours at the head office of the Bank, or in the case of notes payable at a branch of the Bank, either at the head office or at that branch, to require in exchange for the said bank notes for five pounds and upwards bank notes for one pound or ten shillings.

(4) The Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the bank notes for one pound or ten shillings of any series on exchanging them for bank notes of the same value of a new series.

(5) Notwithstanding anything in section eight of the Truck Act, 1831, the payment of wages in bank notes of one pound or ten shillings shall be valid, whether the workman does or does not consent thereto.

2.—(1) Subject to the provisions of this Act the Bank shall issue bank notes up to the amount representing the gold coin and gold bullion for the time being in the issue department, and shall in addition issue bank notes to the amount of two hundred and sixty million pounds in excess of the amount first mentioned in this section, and the issue of notes which the Bank are by or under this Act required or authorised to make in excess of the said first mentioned amount is in this Act referred to as “the fiduciary note issue.”

Amount of  
Bank of  
England  
note issue.

(2) The Treasury may at any time, on being requested by the Bank, direct that the amount of the fiduciary note issue shall for such period as may be determined by the



Treasury, after consultation with the Bank, be reduced by such amount as may be so determined.

Securities  
for note  
issue to be  
held in issue  
department,

3.—(1) In addition to the gold coin and bullion for the time being in the issue department, the Bank shall from time to time appropriate to and hold in the issue department securities of an amount in value sufficient to cover the fiduciary note issue for the time being.

(2) The securities to be held as aforesaid may include silver coin to an amount not exceeding five and one-half million pounds.

(3) The Bank shall from time to time give to the Treasury such information as the Treasury may require with respect to the securities held in the issue department, but shall not be required to include any of the said securities in the account to be taken pursuant to section five of the Bank of England Act, 1819.

Transfer of  
currency  
notes issue  
to Bank of  
England.

4.—(1) As from the appointed day all currency notes issued under the Currency and Bank Notes Act, 1914, certified by the Treasury to be outstanding on that date (including currency notes covered by certificates issued to any persons under section two of the Currency and Bank Notes (Amendment) Act, 1914, but not including currency notes called in but not cancelled) shall, for the purpose of the enactments relating to bank notes and the issue thereof (including this Act) be deemed to be bank notes, and the Bank shall be liable in respect thereof accordingly.

(2) The currency notes to which subsection (1) of this section applies are in this Act referred to as "the transferred currency notes."

(3) At any time after the appointed day, the Bank shall have power, on giving not less than three months' notice in the London, Edinburgh and Belfast Gazettes, to call in the transferred currency notes on exchanging them for bank notes of the same value.

(4) Any currency notes called in but not cancelled before the appointed day may be exchanged for bank notes of the same value.

5.—(1) On the appointed day, in consideration of the Bank undertaking liability in respect of the transferred currency notes, all the assets of the Currency Note Redemption Account other than Government securities shall be transferred to the issue department, and there shall also be transferred to the issue department out of the said assets Government securities of such an amount in value as will together with the other assets to be transferred as aforesaid represent in the aggregate the amount of the transferred currency notes.

Transfer to Bank of certain part of assets of Currency Notes Redemption Account.

For the purpose of this subsection the value of any marketable Government securities shall be taken to be their market price as on the appointed day less the accrued interest, if any, included in that price.

(2) Any bank notes transferred to the Bank under this section shall be cancelled.

(3) Such of the said Government securities as are not transferred to the Bank under the foregoing provisions of this section shall be realised and the amount realised shall be paid into the Exchequer at such time and in such manner as the Treasury direct.

6.—(1) The Bank shall, at such times and in such manner as may be agreed between the Treasury and the Bank, pay to the Treasury an amount equal to the profits arising in respect of each year in the issue department, including the amount of any bank notes written off under section six of the Bank Act, 1892, as amended by this Act, but less the amount of any bank notes so written off which have been presented for payment during the year and the amount of any currency notes called in but not cancelled before the appointed day which have been so presented.

Profits of note issue to be paid to Treasury.

(2) For the purposes of this section the amount of the profits arising in any year in the issue department shall, subject as aforesaid, be ascertained in such manner as may be agreed between the Bank and Treasury.

(3) For the purposes of the Income Tax Acts, any income of, or attributable to, the issue department shall be deemed to be income of the Exchequer, and any expenses of, or attributable to, the issue department shall be deemed not to be expenses of the Bank.

(4) The Bank shall cease to be liable to make any payment in consideration of their exemption from stamp duty on bank notes.

Amendment  
of s. 6 of 55  
& 56 Vict.  
c. 48.

7. Section six of the Bank Act, 1892 (which authorises the writing off of bank notes which are not presented for payment within forty years of the date of issue), shall have effect as if, in the case of notes for one pound or ten shillings, twenty years were substituted for forty years, and as if, in the case of any such notes being transferred currency notes, they had been issued on the appointed day and, in the case of any such notes not being transferred currency notes, they had been issued on the last day on which notes of the particular series of which they formed part were issued by the Bank.

Power to  
increase  
amount of  
fiduciary  
note issue,

8.—(1) If the Bank at any time represent to the Treasury that it is expedient that the amount of the fiduciary note issue shall be increased to some specified amount above two hundred and sixty million pounds, the Treasury may authorise the Bank to issue bank notes to such an increased amount, not exceeding the amount specified as aforesaid, and for such period, not exceeding six months, as the Treasury think proper.

(2) Any authority so given may be renewed or varied from time to time on the like representation and in like manner;

Provided that, notwithstanding the foregoing provision, no such authority shall be renewed so as to remain in force (whether with or without variation) after the expiration of a period of two years from the date on which it was originally given, unless Parliament otherwise determines.

(3) Any minute of the Treasury authorising an increase of the fiduciary note issue under this section shall be laid forthwith before both Houses of Parliament.

9.—(1) For the purpose of any enactment which in the case of a bank in Scotland or Northern Ireland limits by reference to the amount of gold and silver coin held by any such bank the amount of the notes which that bank may have in circulation, bank notes held by that bank or by the Bank on account of that bank, shall be treated as being gold coin held by that bank. Amendment as to issue of notes by banks in Scotland and Northern Ireland.

(2) A bank in Scotland or Northern Ireland may hold the coin and bank notes by reference to which the amount of the bank notes which it is entitled to have in circulation is limited at such of its offices in Scotland or Northern Ireland, respectively, not exceeding two, as may from time to time be approved by the Treasury.

10. The form prescribed by Schedule A to the Bank Charter Act, 1844, for the account to be issued weekly by the Bank under section six of that Act may be modified to such an extent as the Treasury, with the concurrence of the Bank, consider necessary, having regard to the provisions of this Act. Amendment of s. 6 of 7 & 8 Vict. c. 32.

11.—(1) With a view to the concentration of the gold reserves and to the securing of economy in the use of gold, the following provisions of this section shall have effect so long as subsection (1) of section one of the Gold Standard Act, 1925, remains in force. Power of Bank of England to require persons to make returns of and to sell gold.

(2) Any person in the United Kingdom owning any gold coin or bullion to an amount exceeding ten thousand pounds

in value shall, on being required so to do by notice in writing from the Bank, forthwith furnish to the Bank in writing particulars of the gold coin and bullion owned by that person, and shall, if so required by the Bank, sell to the Bank the whole or any part of the said coin or bullion, other than any part thereof which is bonâ fide held for immediate export or which is bonâ fide required for industrial purposes, on payment therefor by the Bank, in the case of coin, of the nominal value thereof, and in the case of bullion, at the rate fixed in section four of the Bank Charter Act, 1844.

Penalty for  
defacing  
bank notes.

12. If any person prints, or stamps, or by any like means impresses, on any bank note any words, letters or figures, he shall, in respect of each offence, be liable on summary conviction to a penalty not exceeding one pound.

Short title,  
interpreta-  
tion and  
repeal.

13.—(1) This Act may be cited as the Currency and Bank Notes Act, 1928.

(2) This Act shall come into operation on the appointed day, and the appointed day shall be such day as His Majesty may by Order in Council appoint, and different days may be appointed for different purposes and for different provisions of this Act.

(3) In this Act, unless the context otherwise requires,—

The expression “ the Bank ” means the Bank of England :

The expression “ issue department ” means the issue department of the Bank :

The expression “ bank note ” means a note of the Bank :

The expression “ coin ” means coin which is current and legal tender in the United Kingdom :

The expression “ bullion ” includes any coin which is not current and legal tender in the United Kingdom.

(4) The enactments set out in the Schedule to this Act are hereby repealed to the extent specified in the third column of that Schedule.

SCHEDULE  
ENACTMENTS REPEALED

Session and Chapter.	Short Title.	Extent of Repeal.
7 & 8 Vict. c. 32.	The Bank Charter Act, 1844.	Sections two, three, five and nine, in section eleven the words from "save and except that" to the end of the section, sections thirteen to twenty, and section twenty-two, and, so far as relates to England, sections ten and twelve.
24 & 25 Vict. c. 3.	Bank of England Act, 1861.	Section four, so far as unrepealed.
4 & 5 Geo. 5. c. 14	The Currency and Bank Notes Act, 1914.	The whole Act except sub-section (5) of section one and section five.
4 & 5 Geo. 5. c. 72	The Currency and Bank Notes (Amendment) Act, 1914	The whole Act.
5 & 6 Geo. 5. c. 62	The Finance Act, 1915.	Section twenty-seven.
15 & 16 Geo. 5 c. 29	The Gold Standard Act, 1925.	Paragraph (b) of sub-section (1) of section one.

## NOTES

### MODERNISM IN ANCIENT ECONOMIC THOUGHT

Those who have studied with a critical eye the history of economic thought in the nations of antiquity are often struck by its "modernism." It may be that human nature, always vain, tries to claim as original for each generation a number of ideas and practices which are only a copy of some past model. In most cases, it must be admitted that the similarity is not the result of a conscious imitation. Human mind working on similar problems at different times and in different places often alight on the same idea. An intensive study of past ideas and institutions and an extensive acquaintance with contemporary developments in the field of thought and action are likely to economise human intelligence and energy. Ancestral worship is a cardinal feature in the practical religion of the Chinese people. It would be wrong to suggest that in the field of economic thought we should be blind worshippers of our ancestors, but it is certainly necessary to emphasise the necessity of a sympathetic acquaintance with the ideas and methods of prosperous states of the past, if we are not to waste our resources by repeating their mistakes.

The religious books of ancient India, celebrated epics like Ramayan and Mahabharat, the Smritis, the Puranas and specific treatises like the "Arthashastra" of Kautilya are some of the sources from which useful information bearing on many a modern economic controversy can be gleaned. An attempt to interpret the economic thought of ancient India in terms of the modern economic science is badly needed. For the service of human knowledge in general and as a step towards understanding the peculiarities of the indigenous problems, research in this direction

is bound to be advantageous. It will be of course futile and unscientific to try to reconstruct a full-fledged economic science out of materials supplied by past experience and ideas. But nobody can deny that for the study of specific economic problems like collectivism, currency regulation, social policy and finance we may refer with advantage to past experience. Professor Seligman, one of the foremost exponents of the modern theory of public finance, when confronted by his own student Dr. Shaw, in his new book on "Democracy and Finance in China," with the achievements of ancient writers and financiers of that country, was constrained to observe: "Indeed there is nothing new under the sun and many of the ideas which we have considered as original with Western thinkers and statesmen, are to be found in more or less developed form in their Eastern predecessors."

The features of financial organisation in Ancient China that struck Prof. Seligman are rather interesting and may be noted with advantage by all interested in economic research in this country. The book of Dr. Shaw referred to above well deserves a reference in the original. We have here drawn upon him for information regarding the history of Chinese economic thought. A study of ancient literature on economic and social subjects reveals very prominently the existence of a number of rival schools of vigorous thinkers. Keen students of ancient Sanskrit sources need not be reminded of the profuse references to such schools that abound in all sociological works of the time. In China, as early as about 1000 B.C., there were a host of economic writers who held definite views and who exerted themselves to the full to assert their superiority over rival systems and to secure the adoption of their practical policies. What might be fittingly termed the "Physiocratic school of ancient Chinese economic philosophy" was represented by Lao Tzu, a free-thinker of 600 B.C. Almost on every page of his famous book "Nature *versus* Nurture" is to be found the dictum, "Government, do nothing." His ideal state was small in size, agricultural by profession and self-sufficient in the satisfaction of all its wants. Another group of writers was known



as the Agricultural School. They emphasised the importance of the agricultural industry in the social and economic life of the nation. What is more striking, however, in the views of this school is their advocacy of a social order centred in co-operative farming as against competitive commercial enterprise, in rural self-government as against bureaucratic autocracy and in the regime of labour as against that of capital. Their exponent Hsi Hsing may almost pass as the Tolstoy of Ancient China. Coming to the specific question of public finance we find "The Jurists" championing the cause of indirect taxation through state monopolies. All natural resources, *e.g.*, salt, iron, forests, mines, etc., were to be placed under public control and exploited as legitimate sources of revenue. Where these resources were lacking, the Jurists suggested that the state should monopolise their imports. As distinguished from the Jurists there was the school of the Confucians which had no particular love for monopolies, but which believed in fiscal justice, *i.e.*, an approximation to the ideal of proportional taxation.

What is more striking, however, than the existence of these schools dealing with general economic philosophy, are the evidences of advanced theory and practice regarding specific social and economic subjects, such as, ownership of land, standard of value, regulation of prices and prohibition. The origin of private ownership of land is shrouded in the cloud of doubtful primitive institutions, and China is no exception to this rule. What is peculiar to that country is, however, the fact that on more than one occasion in recorded history the experiment of public ownership has been tried and has resulted in social and political anarchy, followed by the re-establishment of free ownership. The problem of unstable prices had also attracted the attention of ancient Chinese publicists, and one of the results of their discussions on the subject was the proposal to establish the so-called Level Standard. The prices of all commodities were to be controlled by the Bureau of Level Standard under the supervision of the Finance Department. When the price of a cer-

tain merchandise was high, it was to be sold; when the price was low, it was to be purchased. Thus the rich merchants would make no profits and prices would remain stable. Because of such procedure prices would be held down artificially; the system was called the 'level standard.' The same solicitude for the maintenance of a steady level of prices, but a more advanced appreciation of currency principles, is indicated in another proposal to establish public exchanges where corn and other commodities would be sold and purchased at 'moderate' rates. It is unnecessary to mention that all such proposals ignored the very basic principles of value. But their authors may justifiably claim to occupy the same place in the history of economic doctrines as is held by men like Owen, Fourier or Blanc. It may be surprising for many to be told that credit money was prevalent in China as early as 1000 B.C., cloth and leather being used as the material of the credit instrument. It was not, however, till 1105 A.D. that a paper currency in its modern form was issued. People and governments were, however, so far unused to the regulation of a paper medium that in 1107, we are told there was such an inflation of credit money as to place it at a discount of 99 per cent. In the Kin dynasty it was said that a bundle of 10,000 paper notes would purchase no more than a single piece of bread. Does this not beat the Austrian Billion Krone notes being used for wrapping soap cakes!

History is the laboratory not only of politics but of all social sciences. A historical research into the economic ideas and practices of the prosperous and extensive Eastern nations of antiquity is a field which might be exploited with advantage by all interested in the development of the economic science and the enunciation of right economic policies. China has attracted much adverse notice from its foreign critics as being a nation 'doped' with opium for generations together. This need not be interpreted, however, as implying any particular affinity for intoxicating liquors among the Chinese. Still we find that, as with land nationalisation so with prohibition, the policy has been tried

in China and given up as unworkable. This does not, however, suggest the impossibility of these very policies being launched with success under better conditions and with intelligent precautions. But a study of their failure in earlier times does constitute a necessary and advantageous step towards solving those social problems which unfortunately bid fair to remain with us for a long time to come.

V. G. K.

## THE SUPERVISION OF CO-OPERATIVE FINANCE

The only system of co-operation which has taken roots in this country is credit. Yet in many of the provinces societies have been found to be a mushroom growth, which sprang up merely because the loans could be had on easier terms than from the money-lender and which cannot collect arrears and would not borrow again. We are all familiar with the black list of the different provinces arranged in order of loans outstanding due to agricultural credit societies. The latest figures are as follows :—

		Percentage of amounts repaid by members to amount outstanding at the beginning of the year.	No. of agricultural societies.
Bombay	...	94.1	3,868
Bengal	...	48.4	11,169
Madras	...	41.9	9,822
C. P. and Berar		40.7	4,071
Punjab	...	38.9	12,617
Burma	...	36.6	4,032

## WEAKNESS IN FINANCIAL ORGANISATION

Where more than half the amount is overdue it indicates a fundamental weakness in the financial organisation. In the first place, arrears may be due to inadequate agricultural profits due

to the inclemencies of the seasons. This proves that mere credit facilities cannot ensure successful farming and that as long as we have an inadequate development of agricultural co-operation in all its aspects, the precariousness of the monsoon will leave its impress upon the yields of crop, and through these upon the balance to demand of loans due to the primary societies. Secondly, a high percentage of arrears is due to the fact that the cultivators are not sure of getting advances of money promptly and adequately when they require them. Thus it is human nature which prompts them to keep back part of the dues so that they may not suffer financial strain at the beginning of the next agricultural season. Lastly, arrears mount up where the economic implications of the difference between long and short-term loans in agriculture are not properly understood, or made a part of the system of agricultural advances, and returns.

### THE UNECONOMIC HOLDING AND CO-OPERATIVE FAILURE

Where the holding is uneconomic, and agriculture is a vocation resorted to simply because the family must stay at home, or has no other avenue of more profitable employment, all systems of advances become over-financing. However carefully we might fix the maximum for loans to individual members, and however closely we might supervise the expenditure, arrears will still recur. Both for the money-lender and for the co-operative society, over-financing requires drastic remedies. Then we drive the cultivator to the arms of the money-lender, who can afford to take greater risks than the Central Banks can, or to those of the labour-recruiter, who fills him with the visions of an Eldorado. Enquiries into agricultural costings in many parts of India have gone to show that the average size of the holding is much smaller than that of the subsistence holding, that the yield of the plots

deducting the costs of agriculture, rent and interest on agricultural capital sunk, and providing for some reserve against the effects of uncertain rainfall is inadequate for maintaining the peasant's standard of living. It has been estimated that in Madras in the districts of Tanjore and Trichinopoly, a *Mirasdar's* family must have at least 5 acres to maintain itself without any resources. The number of families which own less than 3 acres of land is much bigger than that of families which own more than 3 acres. Mr. N. G. Ranga's recent enquiry in Guntur has shown that a ryot should have at least 6 to 8 acres of wet land in the deltaic villages, if he is to maintain his present standard of living and save a little to insure himself against famine, sickness and social calamities such as festivals of the gods. Out of 190 families in a village 90 families own no land. Out of the 100 who own lands, 75 own less than 10 acres per family. I suggest that the supervising unions might institute agricultural cost enquiries in different regions, or engage the services of students of the University for a period of three to six months for such purpose, with a view to ascertain whether agriculture undertaken on an average-sized holding, under the conditions of the prevailing practice of crop-rotation, can pay the interest on loans advanced by primary societies and permit the punctual repayment according to the instalments fixed.

### AGRICULTURAL BANKRUPTCY AND LONG-TERM LOANS

The failure to distinguish long and short-term loans which the Townsend Committee of Co-operation have characterised as the most unsatisfactory feature of the co-operative movement at the present time is due less to any lack of understanding of the financial implications of the contrasted kinds of business than to the fact that where agricultural conditions themselves are un-

satisfactory short-term loans easily tend to convert themselves into long-term loans and neither the borrower nor the panchayat-dar has any choice in the matter. Generally speaking, agricultural prosperity is associated with a preponderance of short-term business. On the other hand, the preponderance of long-term business is at once the symptom and effect of agricultural bankruptcy. Where agriculture is not adequately remunerative short-term credit advances have a tendency to be transformed into long-term advances and the long-term advances into arrears. The transformation is regarded in each case as an act of God over which man has no control.

### OVER-FINANCING

From another direction both profit-seeking and mismanagement have conspired to encourage over-financing. The Central Banks in more than one province have shown a tendency to be anti-co-operative in their spirit. Established chiefly by the money of the professional classes they have a partiality for the interests of the depositors, and they pay often higher rates of interest than the joint-stock banks to finance the co-operative movement. Thus deposits flow freely. Yet the higher rates of interest on deposits still continue. The existence of a surplus in the Central Banks, again, has in the different provinces encouraged the multiplication of new societies as well as the increase of the borrowing power of the existing societies. In Bihar and Orissa the indiscriminate acceptance of deposits by the Central Banks and the tendency to issue excessively heavy individual loans have brought about an alarming situation. Many banks are at present incurring heavy losses by the acceptance of deposits in excess of their possible requirements and by their failure to obtain by proper investment even the return necessary for the payment of the interest due to depositors.

## NEITHER BUSINESS NOR CO-OPERATION

To save themselves or to promote the interest of the middle and moneyed classes the Central Banks give up the co-operative spirit. They seem to exist for their depositors, and not for the societies. They grant loans more freely than is justifiable, and are apt to consider that their duty is done when they are able to secure the loans to the societies by mortgages. The societies themselves are also corrupted by the mercenary spirit, and they also are more busy in securing mortgages from the individual members than in encouraging that collective responsibility and management which might be fostered only on the basis of personal integrity and security. This is neither business nor co-operation. For obviously when a large number of mortgages have at any time to be realised in the village, the number of local purchasers will be so small that the land will fetch a small price and may even prove unsaleable. Thus the failure of the Central Banks and with it the collapse of the co-operative movement as a whole will only be a matter of time. As regards the primary societies the tendency to emphasise mortgage and material security in preference of mutual liability and responsibility undermines the very foundation of co-operation. A false sense of security is assured by an increase of mortgage business, and co-operative supervision and education relax. On the other hand, the lack of co-operative supervision and education leads to the increase of arrears and preference of mortgage. Thus the whole affair becomes involved in a vicious circle.

These are the most regrettable tendencies of the co-operative movement in almost every province in India with this difference that in provinces like the United Provinces of Agra and Oudh and Bihar and Orissa such tendencies have become so strong and persistent as to constitute a menace, which, if unchecked, will lead to the ruin of the movement.

Both overdues as well as idle balances indicate at once the violation of both banking as well as co-operative principles, and

so long such features characterise Central Banking, which is the fulcrum of the co-operative movement in this country, the movement is full of risks. On the other hand, the recognition of both these principles will demand the following steps— (1) adequate control over the influx of deposits by an adjustment of the rates of interest and the refusal of deposits when there is no necessity of money; (2) avoidance of excessive profits incommensurate with the working capital; (3) avoidance of making un-co-operative investments of idle balances; (4) reduction of overdues by persistent effort towards the improvement and re-organisation of the existing societies; (5) avoidance of penalising creditworthy members of primary societies by denying the latter further loans because of overdues.

### RECTIFICATION, A COLLECTIVE TASK

This leads us to the consideration of an effective method of financial control, supervision and re-organisation of the primary societies. Which institution is best fitted to take up the work of re-organisation and recovery of overdues will depend largely upon local conditions and circumstances, and perhaps no uniform principles of procedure of financial control ought to be laid down. It must be admitted, on the one hand, that co-operative efficiency points to the local unions as being best fitted to exercise a careful vigilance at close quarters over the financial and administrative affairs of the primary societies; and if the unions fail to discharge this duty properly for lack of efficient higher-paid office-bearers, something ought to be done to increase their funds with a view to enable them to discharge the duties of general supervision, propaganda or organisation work more efficiently. On the other hand, as the Central Banks are ultimately the financiers of the movement, it is they which through their directors or their own paid staff can most effective-



ly exercise the practical, business control so necessary to safeguard the banks' own financial stability. The initiative may be taken by the Central Bank, union or federation, and I think that on the whole a hard and fast differentiation of the duties of supervision, inspection, administration or control and the allocation of responsibilities for the same to different bodies will not be conducive to practical efficiency of the primary society. There is danger of diarchy when drastic and speedy action is to be taken. There is also danger of lack of sufficient number of efficient and whole-hearted co-operators in the different organisations. Any idea of the conflict of interests between the primary societies and Central Banks, which has its justification in the past management of the Central Banks on joint-stock lines, need not justify a complete shifting of responsibility from their hands into those of new organisations with staff and funds wholly inadequate to deal with the present situation, when as many as 75 per cent of the societies demand immediate rectification. The obvious remedy seems to be to depend upon the growth of a sound public opinion in co-operative finance, so that the existing Central Banks may not be controlled by few individuals and they may develop a sound co-operative spirit which will enable them to steer clear of the Scylla of large idle balances which keep up a feverish agitation for expansion on the one hand, and the Charybdis of making un-co-operative investments of such balances, on the other. The experience of Bengal has shown that the Central Banks are federations of local societies, and where the constituent societies, through their representatives, play a leading part in the management of the banks, inspection by Central Banks has been found to be most effective. With an effective representation of the primary societies, in the executive of the Central Banks, the causes which underlie a possible misapprehension will disappear and the district federations and unions can devote themselves more strenuously to co-operative education or propaganda in the villages—a task which they are most fitted to undertake; while they also should, with the con-

currence and co-operation of the Central Banks, undertake the work of consolidation and reorganisation. Nothing is more tantamount to lead to financial chaos at this stage than any scheme which instead of bringing about a co-operation between the financing and supervising agencies sows seeds of disharmony and dual administration. Nothing, again, is more calculated to kill the initiative which has developed in these years than to place greater reliance upon the official agencies for supervision and control. For gradually we have to work towards the complete control of the co-operative movement by the co-operators themselves—an end which can be realised only by the mobilisation of the resources, ability and idealism of all the co-operators, in primary societies and supervising unions, in district federations and Central Banks. A provincial co-operative service, responsible to a central board composed of representatives of different classes of co-operative organisations is, I believe, the first practical step towards such co-operative efficiency.

### NEED OF LINKING CENTRAL INSTITUTIONS

Gradually as Primary Societies, Central Banks and Unions grow, the central institutions, viz., the central banking establishment and the federation will form parts of one organic whole. The central banking institutions will represent in their functions the link between agriculture and the money market, while the federations will take charge of audit, inspection, organisation and propaganda.

It is inevitable that the Central Banks will gradually specialise in forms of banking business only, that would require experienced and sagacious guidance contributing to maintain the fluidity of the co-operative business as a whole. To the unions and the federations will be allotted the task of establishing and supervising the Primary Societies and educating them by a continuous per-

sonal contact kept up by means of the auditors. The scope of Government audit, supervision and inspection will gradually shrink. Whether the time has come to separate the functions of banking and of supervision, and how in the interests of co-operative efficiency and self-government this separation may now be introduced and Government control restricted, your own local experience and conditions will best guide you. But one thing is clear. The two central institutions, the central banking establishment and the federation, must be closely linked together, and if they show discord, the currents that will be transmitted from these centres of energy to the farthest village will contradict one another, making the whole movement futile.

## THE ANCIENT RURAL COMMUNALISM

I do not agree with the view that is current in co-operative circles that credit is the first step towards co-operation, and that unless we have advanced a great deal in this direction no other forms of co-operation are likely to succeed. This is derived from a particular and partial phase of European co-operative experience, which ought not to guide our social and economic policy. Rural history in the East is far different from that in the West. In Europe the village was overshadowed by the imperial system and feudalism, which obscured the ancient communalism, suppressed the rights of the villagers in the common lands, disintegrated village solidarity, and absorbed most of the profits of agriculture so that the tenants were debased. In India and, generally speaking, in the East, the village communalism has been far more widespread and the common pasture, the rights of grazing and cutting fuel, the holdings lying not in contiguous blocks but in scattered strips so as to profit from different soil and climatic conditions, the collective management of irrigation, communal employment of village artisans, servants

and functionaries, the maintenance of a common village fund—all these still testify to the persistence of ancient and essential co-operative traditions unknown to the Western villager. The early English administrator, born and bred in the individualistic traditions of Bentham and Ricardo, treated these as tribal-communal relics of the mediæval past. Both land-settlement and local Government tended to obliterate that careful adjustment of rights in land between the different classes and that efficient local co-operative service, which the Indian village community has evolved through the centuries in response to the agricultural needs and social instincts of the people. Indeed, the disuse of village law and custom as regards communal control of pastures, tanks and irrigation channels, or the management of common village funds and functionaries have in recent years contributed in no small measure to the decline of agriculture in the country. Many reparative measures have been undertaken by the Government in different provinces to check the disruption of the village community and agricultural custom. Such, for instance, are the Punjab Land Alienation and Pre-emption Acts, the various Village Panchayat Acts, which have for their purpose the revival of village organisation and peasant solidarity.

### AGRICULTURAL CREDIT NOT THE WHOLE REMEDY

When the co-operative movement was initiated in India in 1904 it was anticipated that the re-orientation of rural life will not be long delayed and the havoc wrought by a persistent policy of centralisation at last effectively checked. These hopes have not been realised. So far the movement has touched only a microscopic minority of our millions and chiefly confined to cheap financing, which alone cannot solve the economic problem of the peasants. After decades of multiplication of credit societies we have now come to realise that in spite of the great reduction in

the burden of interest and the large and growing amount of reserve fund raised from the agriculturists themselves, arrears have continued to increase and now have become a serious menace. In most of the provinces we have been reaping the effects of hurried and impatient work and the policy now adopted is that of consolidation and improvement of existing societies, not fresh organisation.

In many cases on account of bad debts of the societies members cannot get enough accommodation and resort to the money-lender. Thus the member borrows from the society to repay the money-lender and also borrows from the money-lender to repay the society and this goes on in see-saw fashion till one day credit tumbles down. Easy credit cannot rescue the peasant because it does not touch the roots of the problem, viz., how to increase agricultural efficiency. As long as we cannot increase the actual yield of the land, the interest will not be paid regularly to the primary society, and the mortgage debt will increase. Indeed, the agricultural problem cannot be solved by honesty and thrift alone. The essential thing is to revive or arouse neighbourly friendliness and mutual service in agricultural tasks, as well as in general affairs of village life, to improve rural efficiency and the standard of rural living conditions.

Unfortunately what the co-operative movement generally aims at is to throw a noose in the countryside and lure the peasants into it by the offer of cheap loans. The task of rural reconstruction has been more or less kept in the background. Rural reconstruction is a term which embraces every phase of rural labour and production, and it is essential that this aim should be always present in the mind of the Indian co-operator. For the chief reason why we cannot make much progress in the co-operative movement, is that in our country we are working in the villages on isolated problems and in piece-meal fashion. We thus fail to achieve the success which collective effort in definite regional improvement undertakings might have brought.

R.K.M.

## FINANCE

The outstanding features of interest in the world of finance in recent months are the very interesting struggle between the Federal Reserve banks and Wall Street, the satisfactory results resulting from the stabilisation of the French franc, and the difficulties in Great Britain in regard to the unemployment question. In May, 1927, a calculation based upon the latest earnings of about 350 industrial corporations in the United States showed that the market value of the stocks was 11.2 times the yearly net earnings, giving a yield (earnings, not dividends) of not quite 9 per cent on the aggregate valuation. In April, 1928, the aggregate of market values was 15.2 times the latest available figures of net earnings, giving a yield upon the current valuation of about 6.6 per cent. Business was not so good in 1927 as in 1926, and the reduction in yield was due to the higher market valuation. The National City Bank has pointed out that 'If the outstanding volume of bank credit had been contracted as the result of recent gold exports at the same rate as it was increased when an equal amount of gold came into the country, the stock exchange would have experienced a liquidation which in comparison with that which occurred last month would have been as a cyclone to an evening zephyr.' The Reserve banks rightly set their face against further expansion of credit in stock exchange loans since they are the custodians of the final banking reserves of the country. The discount rate was raised to 4½ and then to 5 per cent to avoid increasing liabilities and diminishing reserves or, in short, to escape the burning of the candle at both ends. They did more, they drew funds from the market by selling Government Securities. The result was the tightening of money all round, and a sobering effect was apparent in Wall Street. The member banks, it is true, offered collateral prescribed by the Reserve Act, viz., commercial paper or Government securities. On the other hand, the Reserve Banks were modifying this by selling securities. Discounts and advances of Reserve banks

advanced in the first five or six months of the year while the bills bought in the open market and United States (*i.e.*, Government securities) declined. The indebtedness of member banks still seems far too high. In July, 1928, it was \$1,031,000,000 as against \$489,000,000 in March and \$477,311,000 on the corresponding date of 1927. It is bad to allow member banks to be indebted continuously to the Reserve banks. The Federal Reserve System is for temporary borrowings only and its power must be unimpaired. The steps taken by the United States Federal Reserve System to check Wall Street speculation and the curtailment of credit that has resulted may exercise a restraining influence on international trade during the current quarter. This, however, must not be exaggerated. Indeed it may have little if any influence as the large increase in credits which have been used for stock exchange speculation may have been due to the fact that these credits have not been required for industry and trade. A reduction of credit employed on the New York Stock Exchange may even ease the situation for international trade. Credit not required by trade usually seeks employment in securities while the psychological storm, the basis of a Stock Exchange 'boom,' lasts, and encourages bankers to manufacture credit for it. The 5 per cent rate has been the rate since 12th July last. The rise in American money rates this year is after the establishment of currency stabilization *de jure* in France, the chief event of the year in international banking.

Concurrently with the restrictive measures there has been a heavy export of gold from the United States to Europe. The return movement of gold was in itself a desirable one, for in the main it reflects the great increase of American investments in European Securities that has taken place since chaos in the distressed countries has been replaced by economic order. The American position is all the more interesting because this is the season when the banks have to finance general business and crop moving usual in the autumn. The movement of gold from the United States to Germany is the result undoubtedly of the revival

of German borrowing operations in Wall Street. The United States has lost in a little over a year in gold £116,000,000, including net loss through exports and earmarkings, and this clearly shows the extent to which the gold accumulated in the United States during the period of monetary disorganisation of the world has been redistributed.

In regard to the stabilisation of the franc at about 20 per cent of the pre-war parity it is interesting to note that France has adopted in principle an unlimited gold standard but for the present has given the central bank the option of redeeming its notes either in bullion or in kind and of fixing a minimum amount below which the bank will not redeem notes. This minimum has been fixed at 215,000 francs or about £1,680. A correspondent of the Bank of France recently wrote '*nous sommes aujourd'hui stabilisés et tous les inconvénients internationaux de notre longue période d'attente sont oubliés. Tout va normalement et nous sommes très satisfaits.*'

The Imperial Bank rate remains (September 7) at 5 per cent to which it was lowered in the middle of July. It seems not improbable that Government's policy may be to run on lower balances. What is required is to avoid as far as possible the large seasonable fluctuations in money rates. It is early yet to say whether this year's busy season will have normal rates. It has been announced that the Government of India have decided to raise through the Bank of England £6,000,000 in Indian Sterling Treasury Bills of six months' maturity. There is a large payment in sterling to be made on account of the Burma Railways which are being transferred to Government management, and Government find it most convenient to meet the funds in this way. Rupee Treasury Bills are not yet popular as they ought to be now a permanent feature of the Indian financial system.

The Report of the Royal Commission on Agriculture raises many and important questions on public finance. The crops in British India today are worth to the cultivator some Rs. 2,000



crores.<sup>1</sup> Population, however, is 243,000,000. In Canada the value is Rs. 2,100 crores but the population is scarcely 9,000,000. In Denmark the yield of wheat per acre is 40·51 bushels, in the United Kingdom 32·4, in Canada 16·92, in the United States 14·47, in Australia 13·24, in India 12·18, and in the Soviet Republics 8·29. These are the average yield for the years 1922—25. In 1926-27 out of a revenue of nearly 90 crores Provincial Governments are spending a shade more than one per cent on the development of the industry which supports such a large portion of the population. Finance to overcome the chief enemies which are ignorance of the connexion between insanitary conditions and disease, thriftlessness and the lack of the will to live better from education and other causes would seem to be the chief fertiliser required. The Commission has done well to emphasize the financial aspects of this all-important problem.

G.F.S.

---

## LABOUR

Mr. Mardy Jones raised the question of the inspection of mines in India in the House of Commons. He felt that 10 Inspectors employed by the Government of India to inspect the 72 coal mines in India, separated from each other by hundreds of miles, was insufficient. His chief object was that an Inspector should arrive as soon as possible at a mine where fatal accidents had occurred. The present staff was wholly inadequate to meet this requirement. The answer given was that this was a matter for the Assembly to take up rather than the House of Commons. We trust the matter will not be neglected by the Assembly. The question of the insufficiency of the Inspecting staff has been brought to the notice of the public more than once.

---

<sup>1</sup> The Science of Public Finance, p. 138, Macmillan & Co,

It is significant that the Bombay Corporation at a special meeting passed a resolution urging the local Government to take immediate steps to appoint a Conciliation Board to bring about an early settlement of the Strike. We are convinced that some machinery for arbitration or conciliation should be created in all our major industries. The loss involved to the various industries, and the distress caused to the workers and their families and the inconvenience to the public are sufficient reasons to warrant State intervention in such matters, under certain limitations.

---

As a result of the prolonged Strike it was stated that Jobbers were joining the Strikers' Union in Bombay. If a closer understanding can be established between the mill-hand and the jobber and they can be united in a Union, we are certain that it would greatly improve matters for Labour in this country. We are certain that a great deal of friction caused in the running of the mills is due to the unsympathetic handling of the mill-hands by the jobbers. If this could be diminished, it would be good for all concerned.

---

The Mill Owners' Association, Bombay, have maintained that there was not only every justification for the standardisation of wages, but also for the standardizing of the number of operatives to a particular job. The Joint Strike Committee have severely criticized the Standardized Scheme issued by the Mill Owners' Association and have said that, if it be adopted, it will place from 10 to 20,000 people on the unemployed list and will take away from two to three lakhs of rupees from wages by the new reductions proposed.

---

We deplore the strike on the South Indian Railway which took place on the 19th July, 1928. The manner in which it has been conducted cannot but be severely condemned. We feel that Mr. Rothera, the Agent, could not be more reasonable and

conciliatory than he has been. The Officers of the Railwaymen's Union should have displayed greater statesmanship and should have been able to maintain discipline. Lack of discipline must lead to the distintegration of Trade Unionism in this country. We, however, well realize that the Leaders are dealing with an uneducated and highly excitable group of men and their task cannot by any means be an easy one. Even after the strike was declared, the Agent gave the assurance that he was prepared to submit the question of the menials and the outstanding grievances of the running staff to arbitration by the Labour Commissioner with the Government of Madras. The offer was not accepted and the strike was not called off. We for one could not grasp the wisdom of this refusal to put the matter up for arbitration. Later it was published that the Central Labour Union, Trichinopoly, would agree to the arbitration offer made by the Agent of the South Indian Railway provided two further points, namely, the question of lock-out pay and the absorption of surplus men after voluntary resignations, were also included for discussion.

---

By a large majority the Trade Union Congress in Australia decided to preserve the affiliation of the Australasian Council of Trade Unions with the Pan-Pacific Secretariat of the "Red" internationals.

---

We note with satisfaction that the Punjab Government are considering the question of appointing the Director of Public Health and some of his assistants as additional Inspectors of factories in order to supervise better the sanitary conditions prevailing in factories and the health of the employees. Any such co-ordination, clearly marked, between Government Departments would mean not only an economy of expenses, but would greatly add to the efficiency of the services rendered. The number of factories in the Punjab was 590 and that of the operatives was little over 50,000 for 1927.

---

The Industrial Transference Board appointed to examine the question of unemployment in Great Britain have estimated that there are about 300,000 people who are permanently unemployed and it is only by a system of national transference of the men from depressed areas to areas more hopeful, and the simplification of the regulations of the Empire Settlement Scheme, and a reduction of passage rate that the situation can at all be relieved. In other words, the unemployment problem has become endemic and can only be successfully met by a change in treatment.

On the strength of these recommendations the Government have authorized Labour Exchequer in Great Britain to give advances to workmen and their families to meet railway fares, removal expenses and remittance to their families. These loans are to be repaid in small instalments. The Export Credit Guarantee Scheme is to be extended for another two years at least.

---

Mr. J. H. Thomas and his railwaymen are to be congratulated at arriving at a successful and amicable solution in agreeing to a  $2\frac{1}{2}$  per cent cut in their wages. The Companies' Directors too have agreed to accept this reduction as far as their salaries are concerned. The agreement is a temporary one and may be terminated after one year on a three months' notice on either side. This is one of the happy signs of the change coming over the employers and the employees in Great Britain in their dealings with one another. Such mutual respect has been won after bitter struggle. We hope that for this country the period of misunderstanding and antipathy will not be as long. But such mutual regard will not be established by the mere wishing for it; it will have to be established by prolonged hard work on either side. We feel that the public at large will have not a little to do in bringing about a better relationship between the contending parties. This they can do by keeping alive their sympathies with the cause of labour and by maintaining an intelligent appreciation of the difficulties and problems that confront the employers.

---

Mr. J. Kaul who was recently acting as Secretary to the Railway Board has been placed on Special Duty to look into the questions of the application of the Washington and Geneva conventions regarding the hours of labour and the weekly rest day for the railway staff in general. The conclusions of his enquiries will be awaited with much interest and eagerness.

---

We would again urge that the Central Government should bestir itself and pass legislation for the control of imports and manufacture of adulterated foodstuffs and drugs. We need not repeat in these pages again that Provincial legislation will not be able to grapple with this wide-spread evil. All-India legislation alone can hope to cope with it. The matter is very serious as it means that not only so much monetary loss is inflicted upon the consumers who buy these commodities paying heavy prices and getting almost trash in return, but it also affects their health seriously. For instance a kind of white oil is being imported to adulterate *ghee*. A great deal of the quinine sold in the bazaar is imported and is of spurious quality. A very large quantity of imported peppermint oil, oil of cloves, a large variety of tinctures of various sorts, and citric acid, santonine, are of very poor quality or are definitely adulterated. Besides imported drugs and medicines, India itself is an active agent in producing many powders and drugs which are supposed to be effective remedies for various diseases and debilities, but which in reality are highly injurious to health. The State should not hesitate to arm itself fully to meet this dreadful danger. Cities are the chief centres where such sales are being carried out, and so it should not be difficult, with vigilance and heavy sentences, to greatly limit the operations of trafficking in such goods.

But, of course, the evil will never be successfully met by this negative action only. What is greatly needed is that cheap and genuine drugs and medicines should be manufactured either by the Government direct or under Government control, and distri-

buted through reliable Agents or public Hospitals or Dispensaries and Thanas and Post Offices. In the manufacture of quinine and its distribution through the Post Offices the Government is rendering remarkable services to the community. If some of the other common drugs, foreign and indigenous, could similarly be made available to the public, at cheap rates, it would be an important service rendered. The health of the nation is involved in this question. Money spent by Government in the supervision, manufacture, control or distribution of the foodstuffs and drugs will be repaid a hundredfold over in the better health of the people and their increased capacity for work. We all know how bitterly the employers complain of the poor health of the employees and the consequent increase in the labour cost of production involved. This adds a heavy weight in the race for markets, even in the home market, against foreign competitors. Investment in the nation's health is one of the best and soundest financial propositions that any Government could be asked to consider.

But in all this question of adulterated foodstuffs and drugs the question of effective inspection is all important. However perfect the legislative measure may be in itself, an adequate, honest and efficient staff is absolutely essential to make it a success, otherwise it would be worse than useless. Take for instance Calcutta; with an area of about 45 square miles, with 50 large markets and innumerable shops and chemists' places to supervise, there are only 11 inspectors appointed to do this work. The wonder is that the work is done as satisfactorily as it is under the circumstances. Standards of purity are fixed for *ghee*, butter, tea, flour, mustard oil and milk. Many of the samples analysed are far below the standard fixed.

Five out of the seven analysts employed by the Corporation are placed at the Hogg Market and are engaged in examining samples of milk. No can of milk is allowed to be exposed for sale unless its contents have been examined by the analyst.

It is proposed, however, to strengthen the inspecting staff.

The question of ill-treatment accorded to the 10,000 British unemployed miners who have been drafted over to Canada by the two Governments concerned will be enquired into officially. We regret that the otherwise well-planned scheme of relief to the unemployed on such a large scale ever undertaken by any two Governments should have been marred by the alleged ill-treatment.

---

A resolution moved at the British Trades Union Congress to convene a Convocation to consider the feasibility of establishing one International Trades Union was overwhelmingly defeated. Mr. J. H. Thomas was one who was very strongly opposed to the motion.

---

It is a matter of great satisfaction that the British Trades Union Congress have passed by a six to one majority vote the Peace in Industry Scheme worked out by the Turner-Mord Conferences noticed in the pages of the last issue of this *Journal*. The Industrial Council and the machinery for conciliation and arbitration will be set up as suggested with the conjunction of the Trades Union Council, the National Confederation of Employers and of the Federation of British Industries.

With the passage of this resolution it may be said that the British Trade Union movement enters upon a wholly new approach to the solution of the various problems that face it. We do not pretend that all difficulties will vanish as if by magic, but we are certain that the solution of the difficulties will be made easier because of the change in *attitude* on both sides. Spirit and temperament play no small part in these matters and this new move is essentially a change in spirit and not so much in machinery. We hope that as in other so in this direction too the British Labour Movement will be successfully pioneering a new path for other nations to follow. The path, although narrow and difficult, must lead eventually to the land of prosperity and peace in Industry. We hope sincerely that our infant Labour Movement in India will not be slow to follow upon such a path as this,

We might note that this move implies two fundamental changes in old-time notions concerning Labour and Capital. In the first place, it is an acceptance of the principle that the well-being of the employer and the employee is not exclusive, but mutually inter-dependent upon each other. And the other is that mere brute force or trial of strength by way of Strikes or Lock-outs is not the best method of arriving at the solution of the intricate problems of modern industrial undertakings. It is only by mutual discussion and conference that some of these difficulties may at all be solved. The triumph of this new orientation will lie in the depth and the sincerity of the change accepted by two sides concerned.

---

The Workmen's Compensation Act (Amendment) Bill is to be circulated for opinion. The amendments proposed are good and are intended to rectify some of the defects of the Act of 1923 which have shewn up in its working.

---

The Trades Disputes Bill is also to be circulated for opinion. We are glad that this has been decided upon as no one can doubt that it is a measure of the greatest importance. We do not apprehend any very great danger in the delay that will be caused by this action, for we feel that the strike-fever has reached its height and is now on the downward grade, while a hasty piece of legislation of this type may only become a fruitful cause of unending friction and may create greater mischief than it hopes to allay.

Generally, we thoroughly approve of the Bill as proposed. The Government, it is evident, have had the matter in mind for a number of years; only recent events have somewhat precipitated affairs. The Bill has been carefully drafted and its provisions have been based upon the working of similar measures in other countries and their suitability to the labour conditions prevailing in India at the present time.



We, however, feel opposed, very strongly, to just one provision of the Bill. We hope it will be deleted from an otherwise sane piece of legislation. We do not feel at all happy about subsection f(iv) of Section 2. We do not feel that industries other than Railways, Posts, Telegraphs, and Telephones, and water, light, conservancy and sanitation services should be included under the scope and meaning of "Public Utility Services." These have rightly been called Public Utility Services, for they do in a very special manner affect the welfare of the community which the other industries do not.

We are aware that the Governor-General in Council will give not less than three months' notice of his intention of declaring "any other industry, business or undertaking" as a Public Utility Service, and we also feel that he will not lightly utilize this power vested in him, and yet we feel that this provision should be left out of the Bill.

It is not that we wish for strikes and prolonged strikes at that in other industries, but it is because we wish for the natural and spontaneous development of the necessary spirit and machinery for the settlement of these difficulties by the employers and employees themselves. A legislative provision of the kind intended may, we feel, only retard the growth and development of such spirit and machinery for Peace in Industry. A mutual adjustment of their troubles—short of strikes or lock-outs—should be wished for and encouraged. In other countries, but particularly in England, such machinery has slowly and gradually been built up. It takes time to evolve these institutions and to build up their traditions. We should therefore restrict the scope of the action of this Bill to Public Utility Services indicated above, and leave the rest of industry and business to work out its own salvation.

We should also remember that so far we have no indication at all as to how the measure will act in actual practice. We must wait upon experience before we press forward in the direction of other industries. Furthermore, we are certain that the working of this measure is bound to have great influence in the settlement

of affairs in other industries not coming directly under its scope. Indirectly it is sure to affect their conduct, method and procedure.

But for this provision, we agree with every other clause of the Bill, even the one about sudden strikes and illegal strikes.

---

The British Labour Party Conference met in Birmingham this month, and amongst other matters discussed the very vital question of the control of the Bank of England, the extension of banking facilities and the control and distribution of credit accommodation to concerns of public use as against private enterprises, especially of the injurious types, and the regulation of the value of Gold by international agreement as set forth in the Genoa Conference of 1922.

---

The Australian Dock Strike has developed into a serious menace. Mr. R. L. Butler, the Premier of South Australia, has declared that the issue is between mob rule and constitutional government.

---

Strong Provincial feeling has been excited at Jamshedpur due to the settlement of the prolonged strike there, owing to the interventions of Mr. Subhas Chandra Bose. Mr. Homi, a Parsi leader of labour, and Mr. Sharma, a Punjabi gentleman, have denounced the settlement arrived at as favourable to the Bengalis only. It seems incredible that men of such position should view the issues from this Provincial angle. The introduction of Provincial consideration in such matters cannot be less disruptive to the meagre forces of labour in this country than that of communalism. It just shows how far the Labour movement has to travel when its Leaders—some of them at least—can take such views.

---

A lock-out involving 40,000 textile workers has been declared at Munchen in Germany. The workers have demanded a 15½ per cent increase in their wages. The struggle is anticipated to be a grim one.

---

Mr. Ben Tillett has been elected Chairman of the General Council of the Trade Union Congress. He succeeds Mr. Ben Turner.

---

Major Covell, I.M.S., who had been specially invited by the Bombay Corporation to study the problem of Malaria in that City, confirms the conclusions arrived at by Dr. Bentley in 1911. He holds that the incidence of malaria in Bombay has actually increased during the last 30 years and that it is specially bad in the mill areas. He asserts that it is the Mills, the Railways and the Corporation that are directly responsible for this increase in malaria as mosquito-breeding places are man-made, there being no natural malaria in the island.

As remedial measures he advocates the permanent closure of wells, abolition of garden tanks and tubs, regular weekly treatment of ponds with Paris Green and the use of mosquito-proof cisterns. He demands active co-operation of all administrations, the employment of a whole-time Malaria Officer, and effectual legislation to ensure the carrying out of remedial measures necessary. With these steps taken in an earnest manner Major Covell holds that malaria could be brought under complete control. He does not estimate the cost to be very great, indeed he thinks that the cost of the present half-measures, and the wide prevalence of malaria amongst the mill-hands resulting in decreased efficiency, drains Bombay of its resources much of which would be saved if a thorough-going scheme were adopted to combat the disease. We trust that the enlightened City of Bombay will give the matter serious attention which it deserves.

---

Under the Maternity Benefit Bill proposed in the Bombay Legislative Council a woman worker would be entitled to receive eight annas per day up to a maximum period of three weeks before and four weeks after confinement. The whole burden would fall upon the employers and they will be required to pay in the sum direct to the women concerned. Only those women who have six months' service to their credit will be entitled to this benefit. We are not sure whether we would not wish that such maternity benefits due to a woman should not be paid to her through the Union to which she may belong, or through some Welfare Society or through the Health Visitors themselves rather than directly by the employers themselves.

---

We trust that the scheme for establishing a Public Health Institute at Calcutta and a Central Medical Research Institute at Dehra Dun that has received the sanction of the Standing Finance Committee of the Assembly will soon be a materialized fact. The principle for the erection of these institutions had been accepted by the Standing Finance Committee in 1922, but due to financial stringency the idea had to be postponed. Since then the entire scheme has been very carefully re-examined by such acknowledged experts as Sir Walter Fletcher, Secretary of the Medical Research Council of Great Britain, and Dr. Carter, a representative of the Rockefeller Foundation in New York. The Rockefeller Foundation, it is hoped, will defray the capital cost of building and equipping the Public Health Institute, estimated at Rs. 15.61 lakhs, provided the Government undertake to meet the cost of maintenance which is estimated to be Rs. 3 lakhs a year. Upon the health of the people rest the foundations of the prosperity and well-being of the nation. Money put into Medical and Public Health Research work would be money well spent.

---

At last the Bombay Mill Strike has been called off. The terms of agreement have been issued by the Government in a

communiqué. The main thing is the appointment of a Committee of three to be appointed by Government with terms of reference covering the main points of the dispute. The strike has lasted over six months, and it has been a long struggle involving great loss to the millowners and much loss and suffering to the workers. It affected about 150,000 workers. However, it must have driven home many useful lessons into the minds of the contending parties concerned, and above all we trust, thoroughly prepared the ground for the peaceful settlement of the difficulties involved by the method of discussion and joint conference. The proposed Trades Dispute Bill may be a useful means of bringing about this desirable end. We also trust the men will learn to discriminate between disinterested and selfless leaders and those who would lead for the sake of their own power and profit.

---

The Ministry of Labour in Great Britain have a special scheme for transferring boys of 16 to 17 years of age in the coal-field area where they are unemployed, to other parts and industries, after giving them suitable training. 1,000 boys have already been found work and their employers report very favourably about them. They have now about 2,500 boys under training, and they hope to have placed 5,000 boys in other employment before long. In this manner they hope successfully to meet the problem of the unemployment of boys and youths in the coal-fields.

---

The All-India Railwaymen's Federation have submitted a draft Memorandum relating to the grievances of railwaymen to the Railway Board. The Memorandum covers questions of a minimum wage, which they place at Rs. 35 for the unskilled worker; stopping of daily wages system; standardization of piece-rate payments; reduction of long hours of work; holiday arrangements; provident fund and gratuity rules; housing; educational and adequate medical facilities and the matter of promotion and racial discrimination,

We have had serious troubles on the Railways up and down the country. It would be futile to put all the blame upon the agitators or the Communist agents. We cannot help feeling that the Railway administrations have shewed themselves unprepared to deal with these Labour crises. The angle of view of the administration must now be changed and Labour should be treated with sympathy if not with respect. Such questions, as indicated in the Railwaymen's memorandum, require close examination and an honest settlement. This is the only way of defeating the machinations of interested men who pose as Labour leaders. The consideration of these matters should not be postponed till the crises arise but there should be routine watch kept over these matters and periodical adjustments effected. In the end expenditure of labour and time spent over such matters will be well repaid. There must be well-constituted machinery to deal with such affairs, merely departmental handling of these problems will not be satisfactory. For this purpose we have on the one side the Trade Union organisations—the properly registered ones to be sure, and on the other side the Railway administration, and these need to work out a solution. Some railways profiting by the recent unhappy experiences have now deputed special officers to look into these problems of the personnel. Labour is becoming conscious of itself and it will demand not privileges, but rights. The demand for recognition or status will not be the least of these demands. Their growing self-respect will be satisfied with nothing less.

---

We have been sent a copy of the Annual Report on the Working of the Assam Labour Emigration Act, 1901, as amended by Act VIII of 1915, in the United Provinces, for the year ended June 30, 1928.

The recruitment of emigrants was carried on in 19 districts of these Provinces. The total number of coolies recruited were 3,685 (men 3,111, women 777 and dependants 797), as against 4,005 recruited last year (1926-27). The bulk of the decrease is

from the Cawnpore and Bahraich districts. The decrease in the Cawnpore district is said to be due to the non-acceptance of single males by the Garden Sardars, while a brisk demand for labour is given as the cause for decrease in the Bahraich district. The Gorakhpur district again sent out the largest number of coolies (1,387). The increase this year is due not only to a greater number of Sardars deputed to this district, but also to the poor *Rabi* crops of last year.

Some Sardars had their licenses stopped and others punished for the infringement of the Act in such matters as recruiting women, without the previous consent of their husbands or guardians.

We note with anxiety the disproportionate recruitment of male as against female coolies. We should therefore like to have some more information regarding the sex and ages of those included under the heading "Dependants." We trust that a large proportion of the "Dependants" include the "wives" of the coolies.

S.K.R.

---

## REVIEWS OF BOOKS

THE ROAD TO PLENTY, 1928, by William T. Foster and Waddill Catchings of the Pollak Foundation for Economic Research of Massachusetts, U.S.A., is the last of a series of four interesting analytical works by the same authors in collaboration, which have appeared for sale during the past few years under the titles of "Money," "Profits" and "Business without a Buyer" and in conclusion of arguments supported by a competition for \$5,000 offered and paid for the best adverse criticism of the second of these four books, which elicited keen response from economists in all parts of the world.

The main theme of these talented authors is the now widely recognised fact that consumer-demand in terms of circulating money is not always sufficient to absorb the production of the necessary comforts and conveniences of modern life and material progress to which civilisation entitles all willing workers, without some corresponding fall in the level of retail selling prices.

It assures readers that the old orthodox doctrine, i.e., that the cost of production in terms of money automatically supplies consumers or users with sufficient means in money to enjoy such production may be true, but omits to state that such absorption can occur only at progressively lower prices unless the volume of the medium of purchase be enlarged *pari passu* with the increase of production.

A stirring appeal is made on the sympathy of its readers for the sufferings, privations and demoralisation of those who are thrown out of work for no fault of their own, but no mention is made of industrial disputes and lock-outs or strikes which have been largely suppressed by the strong action of police methods in America among a working population of mixed nationalities and religions, who so far do not appear to develop combined resistance towards powerful corporations in the matter of wages or dismissals. The story is put in popular form as a discussion in a railway carriage among a group of representative travellers from the leading professions and occupations so as to present so far as possible every point of view.

The dilemma of thrift, by which is meant money-savings invested in new enterprise, is stressed as often the primary cause of the shortage of consumer-income available or spendable on the products of civilisation; but nothing much is said about money-lending at interest as a more potent cause of this disequilibrium between the command of the purchasing media and the final cost of all commodities effected with borrowed funds. The authors have evidently been constrained to avoid any comment on the responsibility of bankers for booms and slumps in trade which may be due to imprudent lendings with subsequent pressure on borrowers either through higher rates of discount or through refusal to renew their loans; neither has any reference been made to the effect of dearer money



on all retail selling prices of commodities, *i.e.*, upwards, or on speculative stocks and shares, *i.e.*, downwards. There is however constant allusion to the expansion of money but it is not explained how this is obtained, presumably by means of bank credit and by the issue of new Federal Reserve notes against re-discounted trade bills, since no reference is made to the subsequent contraction of money as a natural corrective to rising prices.

The general diagnosis of economic ills as displayed by overproduction or underconsumption is correct and clearly explained, but the remedy or policy suggested is largely impracticable because the data and index figures needed to exhibit from day to day the trend of retail prices and the daily volume of production would never be available in time to permit of the prompt application of the necessary correctives, such as new public works or the flotation of Government debts,—which latter the authors consider as an addition to money in circulation if spent on such works,—or through the expansion of bank credit based thereon for purposes of trade. For the opposite condition, they suggest contraction of the currency by means of repayment of such debts to the public, which money has then to be reinvested at lower yields, thus reducing incomes. Nor could the amount of correction be found without experiment.

"Money is not the surface of things, it is the heart of the whole works"—this is the *obiter dictum* of the business man in the party, and it is from him we learn how the cure of economic ills can be effected by means of the proper flow of money in relation to consumption. Again his dictum that "the using-up of consumers' goods is the end of economic activity, while the using-up of producers' goods is only one means toward that end" will be generally accepted without question.

In Chapter XV the Road to Plenty is laid out through the establishment of a Federal Board to advise Government on economic welfare and to afford a leadership in business circles. The existing Federal Reserve Board is said to be essentially a system for financing production and "has nothing to do directly with providing consumers with enough money to buy goods"; but here the authors make their cardinal error. If the Federal Board system would confine its operations to the rediscounting of all approved *bona-fide* trade transactions in new currency at some reliable rate, the result would be a sufficient supply of money to carry all production into consumption at steady prices. Indeed it was created partly for this purpose as Section 13 of the Act will show, but the vital distinction between business done and business expected to be done has not been apprehended.

Production can only be safely promoted by savings or surplus money in the hands of consumer-workers whose inducement will be money profits included in retail selling prices. But if bank-interest be deductible from such profits or addable to such prices, either the necessary inducement is partly withdrawn, or the ability of consumers to pay is reduced. Interest must be duly paid under threat of insolvency or capital reconstruction but profits may disappear and may become losses before producers will cease to function. In any case, the risk of

rediscounting is less than that of money-lending on collateral however secure; the margin demanded by bankers on such "assets" proves this.

The power of the State to increase consumer-income at short notice is doubtful, the borrowing of money or public debt based on taxation may not have this effect unless it be promptly spent on public utilities and services which certainly tend to raise retail prices in the vicinity. The repayment of public debts connotes surplus revenues which may not be available at a time of rising prices but any declaration by Government that its policy will be aimed at the reduction of unemployment and the stabilization of the retail price level would inspire confidence among business men, and private enterprise may be thereby stimulated.

Nothing is said as to the speed of circulation of the permanent stock of money, nor the economy effected in the use of money by means of paper transfers such as cheques and bank drafts, nor of the facilities for remittance by telegram, nor of the stimulus of higher rates of interest on the circulation; perhaps these are minor matters in such a general scheme of State assistance or non-interference with private business.

The idea is good and sound if it can be carried out effectively, but the existing money mechanism is quite sufficient when modified as regards movements of the minimum rate of re-discount and when amplified or extended without legal limitation connected with gold reserves.

No mention is made of the revenue earned by the State on re-discount operations although they must be considerable and relieve taxation.

The authors anticipate that wages will rise with increased production; this may and should be true of individual attention and effort, but since retail prices will be stabilized, wages should also be steady and continuous. They are allied to prices and an element of all costs.

The field of useful employment will certainly be extended so that all foreign barter trade will be confined to surplus products in exchange for exotic supplies including gold if wanted.

A woman is introduced at the end to inspire the business man to necessary action as his wife, and the Church is called upon to cease the preaching of the dismal doctrine of self-sacrifice and resignation to things as they are.

H. R. SCOTT.

---

PRIMER OF CO-OPERATION by H. L. Kaji, M.A., B.Sc., F.E.S., J.P. Published by the Superintendent, Provincial Co-operative Institute, Bombay.

This unostentatious pamphlet of thirty-six pages gives an idea of the aims and achievements of the Co-operative Movement in the Bombay Presidency. The subject-matter was given as *fifteen minutes' talks* on the Co-operative Movement in the Bombay Presidency as part of the programme of the Broadcasting Company, Bombay.

In the seven talks into which the pamphlet is divided Professor Kaji has managed to give, with rare skill and perspicacity, the present condition of the movement in the Presidency, and has discussed the lines on which problems have to be solved. While discussing the aims of the movement Professor Kaji aptly reminds his readers that "It is protection of the poor and not survival of the fittest which is, therefore, the accepted motto of the co-operative movement."

In the second talk on Rural Credit Societies, Professor Kanu, while emphasizing the need of business-like methods and efficient management in the societies, recommends that "supervision over its affairs must be thorough," and "the central financing agencies might, therefore, be strengthened more and their guiding influence over the small affiliated societies made more real and effective . . ."

So far as the objective is concerned, we are one with Professor Kaji, but we entirely disagree with him in the method suggested to secure the end. We would rather leave the central financing agencies severely alone to finance, and leave the work of supervision and guidance, be it in the acquisition of business methods or the assimilation of co-operative principles and practice, to either the local managing committee or some other private gentlemen, if available, or to the supervising unions under the patronage of the Provincial Institute. The central financing institutions, if allowed to meddle too much, tend to reduce the Primary Society to the position of a mere local agent of the central society for the distribution of loans. That is what actually happened in the United Provinces. In the Bombay Presidency, where the non-official agency is readily available to help the movement on, we think it would be safe to keep the central financing institutions to the financing alone.

In the third talk Professor Kaji has discussed Co-operative Societies other than Credit and we note with pleasure his recommendation that, "It is unnecessary duplication of work and waste of energy for the Credit Society to sanction loans and for the Purchase Society to make purchases for agriculturists with the loans so obtained. It is desirable for the Credit Society itself to develop and expand into a Purchasing Society."

His remaining four talks on Urban Co-operation and Co-operative Law are equally instructive and interesting and give an idea to the reader of his first-hand information of the subject he is talking about. We recommend this pamphlet for careful study to all lovers of Co-operation in India.

B. G. BHATNAGAR.

---

REPORT OF THE UNEMPLOYMENT COMMITTEE, 1927. Madras Govt. Press. Price 7 annas.  
REPORT OF THE UNEMPLOYMENT ENQUIRY COMMITTEE, 1928. Travancore.

That the problem of Unemployment for the educated classes, if not for the other sections of the community, has become an extremely serious one must be apparent to even the casual observer of our present-day social system. The

problem is not specific to any Province, but is truly an All India one. The Central Government have however decided it to be a Provincial one and have left it to the individual Provinces to find the remedy for it themselves. We, however, feel that the Central Government should co-ordinate the efforts of the individual Provinces and assist them in these schemes for the mitigation of the evil. They cannot disest themselves of all responsibility. The British Government themselves acting through the Ministry for Labour have set a good example which our Central Government may well follow. They have negotiated with the Canadian Government, and from all accounts have transferred at least 8,000 out of the 10,000 miners to Canada, successfully, not to mention the transferences that the Government are making within the country itself through the Industrial Transference Board.

Most of the Provinces have however addressed themselves to the Problem. Bengal, Bombay, Madras, Punjab and recently the United Provinces have constituted Unemployment Inquiry Committees and have gone into the matter. Some of the Indian States too have taken up the question and we must say that the Travancore Committee seem to us to have accomplished their task with great credit. The one significant fact about the Travancore Committee was that they issued their questionnaire not only in English but also in the vernaculars—in Tamil and Malayalam. We greatly appreciate this action of theirs and hold that when further enquiries of this nature are made which take into account not only the English knowing person but others too that the medium of the vernacular should not be neglected. Our scope of information would in this way be greatly widened and would also come from within a deeper strata of the people.

The Reports disclose the cruxes of this problem. The Travancore Committee touching probably more thoroughly and deeply the underlying causes. The state of affairs seems to be more acute in Travancore than in Madras but we are not too sure whether this really represents the real conditions. To have conducted this inquiry over an area containing the population that Travancore carries is really quite different from conducting a similar enquiry over an area as large and carrying a population as heavy as in the Madras Presidency. The magnitude of the latter must necessarily affect the accuracy of the enquiry.

Both Committees demand change in the nature of education imparted. Variety in education is demanded with a definite bias for Science and Agriculture, as is being done in the Punjab in the Agriculture bias Schools. They also desire the opening up of technical, industrial and mechanical schools, where requisite training in these arts and handicrafts could be properly given. They also hold that Adult education should be more strongly developed by a system of Continuation schools.

But more than this, both Committees hold that fundamentally what is required is a change in the people's estimate of the so called honourable professions and services. A new valuation dependent upon a new outlook of life is necessary. This is the only way in which chronic overcrowding in certain directions will be relieved. In other words, all Manual (using the word comprehensively) work

should be looked upon as honourable as long as it—or indeed any other work—remains honest. This change in people's estimate of the different walks of life will come about not only by a change in education, but by the training given in the homes and by other powerful social influences. Both Committees feel that outside the learned professions and clerical occupations there is sufficient scope, especially on land. But the Committees do not think that land will prove an easy solution of the trouble unless the amenities of village life are improved, and the far more difficult problem of the fragmentation of holdings is checked by a change in the Inheritance Laws, Tenancy Legislation or Co-operative action. Unless this is done, "Back to the Land" cry will only be one in the wilderness.

The Travancore Committee do not seem to have much faith in Educational Colonies of the Maharaja of Cossimbazar's Polytechnic Institute type run under the disinterested and enthusiastic direction of Captain J. W. Petavel.

It is of course frankly an experiment in the Indian environment. Similar experiments have been tried elsewhere and the great Educationist, Paul Oestreich, Leader of the German Youth Movement, believes in the soundness of such educational institutions. His own Produktion Schule in Germany seems to be functioning successfully.

The Travancore Committee suggest a definite plan of land colonisation for the unemployed educated youth. They propose that some available waste land should be given to each candidate varying from 15 to 20 acres blocks to 5 to 10 acres blocks, according to educational qualifications, and agricultural loans ranging from Rs. 250 to Rs. 1,000. They suggest that one or two such model colonies should be started, under non-official control, and its results watched. We strongly commend this suggestion for State action. We feel however that Horticulture rather than routine agriculture will be more suitable for the educated youths as are being produced, for the present, in our Schools and Universities. Many of these are not accustomed to the heavy, hard and strenuous work that ordinary agriculture demands. Horticulture would be more congenial. The experiment, however, is well worth trying.

Both these Reports give much valuable information and suggestions. We lack such information, and without the knowledge of the facts of the situation no effective remedial measures can be taken. The facts have been gathered in now and it only needs to try out the remedies recommended.

S. K. RUDRA.

---

CO-OPERATIVE CREDIT IN JAMUI SUBDIVISION by Sadashiva Prasad, B.A., Bihar and Orissa Co-operative Federation, Patna.

This small pamphlet gives us an idea of the progress of co-operative credit societies in the Jamui subdivision. In November, 1918, Rev. Barlow was appoint-

ed an Honorary Organiser for Co-operative Societies in the subdivision by the Registrar of Co-operative Societies, and at the end of 1926 we find 121 agricultural and 3 non agricultural societies developed in that area. The writer gives a vivid description of the work done during the 8 years under review in the development of co-operation. But the pamphlet contains much more than a mere history of development of credit co-operation. It also gives us an idea of the economic condition of the people.

B G BHATNAGAR.

SHORT NOTES ON LAND REVENUE ADMINISTRATION AND SOME CONNECTED SUBJECTS

by Kesari Singh Pancholy, B.A., LL.B. Pp xvii, 119 Rs 5

'This,' the third volume of Mr Kesari Singh's series 'for the young princes,' 'is without doubt the most important,' observes the writer of the Preface to this book. Perhaps the writer of the Preface is correct. The book deals with Land Revenue Administration, Agriculture, Famines, and Co-operative Credit Societies.

Judged from the point of view of general talks on the above serious subjects to a prince or princes of India, it may be passed as a tolerable effort of an overworked tutor who had to talk on a variety of topics. But from the standard of exposition attained in the lectures, and the degree of information given in them on the various topics, the author does not seem to have been justified in getting his lectures published in book form and pricing them at Rs 5!

B G BHATNAGAR

THE LAND OF THE FIVE RIVERS by Hugh Kennedy Trevaskis Oxford University Press 1928 Pp 372 Price Rs 9

This purports to be an economic history of the Punjab from the earliest times to 1890. It is really a politico-religio-economic history down to the disruption of the Sikh Kingdom and after that it assumes practically a purely economic hue.

As a book for the general reader who has more or less a dilettante interest in purely economic matters, and does not wish to be bothered at all with statistical data, it is quite a good treatise. It describes the rise and fall of the Hindu, Pathan, Moghul and Sikh powers, narrates the story of the origin and development (and in the case of Buddhism, decline also) of Hinduism, Buddhism, Islam, and Sikhism, and gives an idea of the Hindu and Muslim theories of the State besides dealing with those subjects that fall under the purview of economic history pure and simple—all of which keeps the book from being tiresome reading. Then, the style is learned and pleasing. Each chapter is begun with a

quotation—prose or poetic—from a classical or modern author—which serves as a sort of headline to the chapter, and, wherever an opportunity offers itself, the body of the chapters themselves is adorned with some apt poetic lines.

All this is very well indeed, so far as it goes. But, as a scientific thesis, the book, we are afraid, must be declared a disappointment. With the exception of one chapter and certain sections of certain chapters—*e.g.*, Chapter V, Sections 1 and 3 of Chapter I, 2, 6 and 7 of Chapter II, 2, 4 and 5 of Chapter III and 4 of Chapter IV, which may be said to be mostly economic history, the rest of the book is dominated by political or religious history or by matter, such as the Section on Bengal, which has little or no bearing on the economic history of the Land of the Five Rivers.

Then, the author appears to be a man of strong sympathies and antipathies. He suffers from what is known as "deficiency in intellectual sympathy"; he sees only one side of truth and is unable to realize that there are generally many sides to it, and in a scientific treatise all of them should be glanced at.

This is a great defect of the book, greater than the first one noted above. Examples of it can be found throughout the book. The author's denunciation of the Brahminical religion as having its origin in and having its existence on the selfishness of the Brahmins is the first instance in point. That religion, to whatever depths of depravity it might have declined with the decline of learning in India, contain certain eternal truths which keep it alive in spite of the fact that the influence of Brahmins has mostly disappeared, at least in the Punjab, and that, we are ready to say, rightly.

Another example of the onesidedness of the author may be found in sections 3 and 1 of Chapter V—headed respectively "The Political Supremacy of the Lawyer" and "The Economic Dictatorship of the Money-Lender." The former would give the reader an idea that the author would not have the law courts as they have resulted in the tremendous litigation that is going on in the Punjab, and in the supremacy of the lawyer. He seems to impart the notion that the rule of no-law, or entrusting settlement of cases in each district to the Deputy Commissioner who is thoroughly familiar with the conditions in his district, would have been the right thing. That would have been so, provided the Deputy Commissioner was fair-minded and thoroughly acquainted with his people and their conditions. But what guarantee is there that this condition would always be satisfied? It is simply because this guarantee does not exist that people prefer the rule of the law which is rightly regarded as a lesser evil.

As to section 4, it is full of praise or pity for one community and of vituperations for another community. We would not say anything about the political or social consequences which this may have upon the tense communal situation in the Punjab, but we would ask the author "Is there nothing whatever to be said for the maligned community to which the majority of the money-lenders belong? Is it really their 'wily' nature that is responsible for all the ills that have fallen to the other community?" We ask these questions because we have not throughout this section seen a single word in justification of the atti-

tude of this community, or in modification of statements which may be,—we will concede, are—generally true, but are not so in every case, and, also because, we believe that the author's purpose would have been equally served by his avoiding the use of words which would certainly appear offensive to the run-down community

Still another example illustrative of the same trend of mind is to be found in the comparison or contrast which the author has instituted between the Hindu and Muslim rulers and the British Raj. Speaking of the system of land administration of the Hindu rulers he says, 'The present British Government takes as land revenue from a twelfth to a sixth of the produce, not very much less than these early kings but in return for this it gives economic administrative and educational facilities which they would not even have thought of' (p. 36); and similarly he says of the Moghul administration. But the expenditure on beneficent activities such as agricultural development, education, medical relief, and sanitation which now absorb such a large proportion of government revenue was practically nil (p. 126). While what the author says with regard to the expenditure of these governments is, on the whole, a fact, we would ask him if it is right to judge of those times by the standards of the present? The beneficent activities could not have been thought of then because they were not in the air even in contemporary European countries. No government was condemned then if it did not undertake those activities, but if any government did not undertake them on the present day one of the reasons for the existence of that government would disappear. But apart from this, what is the proportion of its total revenues that the present government utilizes for these activities? This amount has always been regarded as utterly inadequate by enlightened Indian opinion, whether it is compared with the total revenues of the country or with the amounts spent by other civilized governments on these departments.

There is one more criticism of the book we wish to offer. The economic history of the Punjab under the British, although it deals with the problem of land very well, deals with that only, and says nothing about manufactures, trade and commerce.

While welcoming the book as an addition to the scanty store of economic histories of India, we cannot but deplore the fact that a learned man like the author should be swayed by only one side of the problems he deals with.

G. D. KARWAL

---

THE EMPIRE OF THE GREAT MOGOL by J. S. Hoyland and S. N. Banerji. D. R. Taraporevala, Sons & Co., Bombay. Pp. xiv+253. Rs. 28.

This book is an annotated translation of the Latin work of De Laet, a Dutch writer of the seventeenth century. De Laet himself never visited India but, as a director of the Dutch East India Company, he had access to reliable sources



of information. A painstaking collector and accurate writer he compiled this account of India from numerous sources, some of which are mentioned in the course of the narrative, and published it in Latin in 1631. The book consists of two parts, the first containing miscellaneous information about the geography of India, trade and industry, administrative arrangements, social conditions and the wealth and military resources of the Mughal Empire, and the second containing a fragment of the history of India from 1540 to 1628.

The two parts of the work are very unequal in value. The second based as it is on a single chronicle popularly known as Van den Broecke's Fragment, but identified by Professor Banerji in the Introduction as the work of Pelsaert, the chief of the Dutch factory at Agra—is a document of solid worth, highly prized by competent authorities.

In the earlier part you notice the usual defects of travellers' tales. De Laet's authorities being European traders, the information furnished by them as regards commercial commodities, weights and measures, money, exchange, tolls, taxes, the security of the highways, etc., surpasses in accuracy and fulness of detail anything to be found in indigenous sources. The geography too of regions such as Gujrat, Malwa and the country from Agra and Delhi to Lahore, which was generally frequented by European travellers, is correct, but grotesque mistakes appear when the author is dealing with other regions and with subjects such as Social conditions, history and antiquities and the details of administration which require an intimate knowledge of the country and its people. Chapter IX on the "Kings of India," based on Garcia's "Treatise on Aromatic Plants" is worthless for all practical purposes and a statement such as "Most Muhammadans shave the whole head except a tuft around the crown which they leave in order that Muhammad may pull them up to Heaven" induces one seriously to discount the value of the entire work.

The critical footnotes written by Professor Banerji are scholarly and copious and what is more to be commended they seldom fail the reader. The printing is remarkably correct considering the nature of the subject, but the book deserves a more attractive get-up.

P.

**INDIAN  
JOURNAL OF ECONOMICS**

**VOL. IX —PART 3**

---

**TWELFTH CONFERENCE  
OF THE  
INDIAN ECONOMIC ASSOCIATION**



# **CONFERENCE PAPERS**



# FEDERAL FINANCE IN INDIA

BY

K. T. SHAH,

*University of Bombay.*

## 1. GENERAL PRINCIPLES OF FEDERAL FINANCE

The distinguished marks of a federal organisation consist in a division of sovereignty between the constituent states, making up the Federation and the Federation itself. Almost all the existing federations in the world to-day, with the possible exception of the United States of Brazil and the Indian Empire, have been brought about by a kind of compact between the constituent states existing before their Federation into a new state, which by agreement has led to a distribution of powers and functions as between the constituent states and the Federation in accordance with the impulse which led them to unite. According as this federation impulse was powerful or otherwise, the powers of the associates and of their association have varied; and the financial resources placed at the disposal of either have had to correspond to the functions and obligations assigned, respectively, to the Union and to the uniting states. There is, naturally, no uniform model for the several Federations of the world to conform to. Each has to evolve its own system according to the urge which makes for the Union, in the first instance; and each has, likewise, to effect its own modifications in the course of its history which the exigencies of the age and the country demand. Subject to this limitation, it may, however, be said, that in general, in all federal states, the functions of National Defence and maintenance of National Credit, at home and abroad, together with all those

other matters which concern the nation's welfare, are entrusted to the Union Government; while all matters of primarily local interest and concern are left to the federating states, or their delegates. The subjoined summary of the division of powers and functions, as between the leading Federations and their member states, is appended by way of illustration and confirmation of the foregoing remarks:—

In the United States of America, whose federal republican constitution is now the oldest in the world, Section VIII of the Constitution of September, 1787, allows the Congress power to levy and collect taxes and imposts, to pay debt and provide for the common defence and welfare of the Union. The taxes and duties, however, voted by the Union Legislature, must be “uniform throughout the states. Money may be borrowed by the same body on the credit of the United States, and the foreign as well as the internal trade of the Union regulated. Nationalisation of aliens and laws governing bankruptcies are likewise within the province of the Congress, as also the coining of money, the regulation of currency, and fixing of weights and measures. Establishment of the Post Office and Post Roads is a Union subject, as also the guaranteeing to authors or inventors the copyright or patent in their works or discoveries. All courts of law, below the Supreme Court established by the Constitution, may be set up by the Congress; and the same authority may define and punish piracies and other offences on the High Seas. The declaration of War, maintenance of internal order, the raising and maintaining of an army and navy, and the making of rules for the governance and regulation of the land and sea forces are also vested in the same body. These are considerable powers; and though the Constitution has been amended over again since its adoption, the powers of the Central Government have been more often increased than not. The original Constitution had prohibited to the Congress any interference with the right of the states to regulate migration; and an interdict was placed upon any suspension of the writ of *Habeas Corpus*, except in extraordinary

emergencies of rebellion or invasion. It was equally clear and positive about direct taxation.

“ No capitation or other direct tax shall be laid, unless in proportion to the census or enumeration hereinbefore directed to be taken. No tax or duty shall be laid on articles exported from any state. No preference shall be given by any regulation of commerce to the ports of one state over those of another; nor shall vessels bound to or from one state be obliged to enter, clear, or pay duties in another.”

The part of this Section IX relating to the prohibition of direct taxation to the Union Government caused increasing embarrassment to the Central authority as the obligations and requirements of that authority began to expand; and so the portion was amended, after a historic struggle by the Amendment Sixteen of the Constitution adopted in 1913:—

“ The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration.”

The powers of the constituent states, however, comprise all the field that is not specifically assigned to the Union. Amendment 10 of the Constitution, adopted as early as 1791, lays down:—

“ The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively or to the people.”

The only powers expressly prohibited by the Constitution to the states include dealings with foreign states, coining money or emitting bills of credit, passing any bill of attainder or granting titles of nobility, or making laws impairing the obligation of contracts. Levying of duties on imports or exports, without the



consent of the Congress, is similarly forbidden to the states, except for what may suffice for their inspection laws; and all monies collected from such duties must go to the United States Treasury. On the same analogy, and under the same limitation, keeping of troops or war-ships in time of peace, or engaging in war, or making warlike alliances with foreign states is forbidden to the states, "unless actually invaded or in such imminent danger as will not admit of delay." (Section X.)

Financial obligations and resources in the Union have been divided in accordance with the governing principles of the Federal organisation herebefore outlined. We shall review these financial relations in a minute. Let us here add, by way of contrast or comparison, the analogous provision of the Swiss Constitution which breathes the same air of local autonomy tempered with national cohesion. If the original Constitution of the United States is nearly 150 years old, the Swiss Confederacy dates in effect from the Middle ages. The latest constitution, however, of this ancient mountain democracy dates from 1874, and embodies the experience of centuries of that people's own history. Local autonomy is definitely the principal aim of the Swiss Constitution even as in the days when Freeman wrote, the confederation being formed and maintained as a useful adjunct to promote the common welfare. "*Les Cantons sont souverains en tant que leur souverainete n'est pas limitée par la Constitution fédéral, et, comme tels, ils exercent tous les droits qui ne sont pas délégués au pouvoir fédéral,*" says Article 3 of this Constitution. The powers of making war and peace are delegated to the Confederation, as also those of making treaties with foreign powers, including those regulating commerce. (Art. 8.) But the Swiss Constitution is probably unique in its anxiety to maintain local rights, in its reserving to the Cantons the right to conclude Treaties with foreign states under exceptional conditions, on matters concerning public economy, neighbourly amenities, or police regulations, provided that such Treaties contain nothing repugnant to the Federation or to the other Cantons. (Art. 9.)

Among themselves, of course, the Cantons have the right to make conventions regarding legislation, administration of justice, on conditions that the same are intimated to the Central authority, and that the latter finds in them nothing injurious to the rights of the other Cantons. The Army, and provision for National Defence, even in this permanently neutralised country, belong to the Federal authority; and Canton may have, besides its gendarmerie, upto 300 men of the permanent army (Art. 13, cf. also Art. 19). The Federation can order expropriation for certain purposes subject to the payment of an indemnity or compensation. The supervisor of the Forest Police, the regulation of fishing and hunting (25), legislation on Railways, Posts and Telegraphs (36), the creation of a Federal University and provision for higher education, public debt and coinage of money and note-issue, the fixing of Customs duties,—these belong to the Federal authority. The revenue from the Posts and Powder monopoly is reserved to the Federation. The revenue from Customs is similarly assigned to that body, subject to certain refunds to specified Cantons; while the constitutional provision in Article 29 (2), permitting Export Duties, requires them to be as moderate as possible. Certain duties in the nature of Terminal Taxes or Octroi on articles of consumption within a Canton were upto 1890 reserved to the Cantons. It is curious to note that in Switzerland, the Central authority has no right to make a monopoly of the issue of paper-money, nor to make such money legal tender (39). As in the U.S.A. so in Switzerland, laws governing civil capacity, commercial transactions, literary and artistic property (copyright), and bankruptcy belong to the federal sphere (64).

The financial resources of the Swiss Confederation, enumerated in Article 42, include the yield:—(1) of the federal domain; (2) of the federal customs duties collected at the Swiss frontiers; (3) of the Posts and Telegraphs; (4) of the Powder monopoly; (5) of half of the tax on exemption from military duty; (6) of cantonal contributions. Direct taxation is still reserved, in Switzerland, as it was in the German Empire before the War, to the Cantons.

The Post-war German Constitution leans as much on the side of the Central or Federal authority as the Bismarckian Empire leant on the side of the constituent States. The Federal Government is now given sole authority in regard to: Foreign and Colonial affairs; Nationality, settlement, immigration and emigration, extradition; Organisation of the Defence Force; Coinage, Customs and internal trade regulation and the Postal services, including Telegraphs and Telephones (Art. 6). On all matters, concerning public peace on which there is no need for uniform regulation, the Federation may legislate (9); while it may lay down the general principles for the guidance of local legislation in regard to subjects like the rights and duties of religious bodies, or public education including the Universities and scientific libraries. On 20 specified heads, the Federation has legislative authority concurrent with the states, e.g., civil and criminal law and legal procedure; passports and surveillance of figures and provision for poor law and travellers; labour laws, insurance, protection of workmen, and labour bureaux; expropriation and socialisation of natural resources or economic undertakings; Trade, weights and measures, paper-money. The guiding principle, however, in regard to such concurrent legislation is laid down in Article 13: "Federal Law breaks through State Law." The preceding Article is reminiscent of the old preponderance of State rights as against the Federation:—

"So long and in so far as the Federation has not exercised its legislative powers, the states continue free to legislate. This does not hold good of subjects as to which the Federation has sole power to legislate."

The financial resources, moreover, of the states have been drastically cut down by the Constitution of 1919:

"The Federation may legislate as regards taxes and other sources of revenue, in so far as they are claimed, either wholly or in part, for federal purposes. When

claiming ~~taxes~~ or other sources of revenue which hitherto belonged to the states, the Federation must have due regard to preserve the vitality of the states.”  
(Art. 8.)

In regard to the management of the public credit, the present German Constitution makes a noteworthy improvement by Article 87, which may well be copied by other countries:

“ Monies may be raised upon credit for extraordinary needs only, and, as a rule, only for productive expenditure. A federal law alone can authorise such raising of monies on the assumption, by the Federation, of liability by way of guarantee.”

In contrast with the American and American (?) models, the Federations within the British Empire, in America, Australia and Africa, manifest certain significant differences *inter se*, as well as in comparison with the non-British models. The following summary of the Federal and State powers will be instructive by itself:—

Dominion of Canada : Founded in 1867 :  
Distribution of Powers between—

The Dominion      The Province

To make laws for the peace, order and good government of Canada; particularly on:—

1. Public debt and property
2. Regulation of trade and commerce.
3. Raising money by taxation.
4. Borrowing money.
5. Postal service.
6. Census and statistics.
7. Militia-Military and Naval Service and Defence.
8. Fixing emoluments of Canadian Government Officers.
9. Beacons, buoys, Navigation and Shipping.
11. Quarantine.
12. Sea Coast and Inland fishery.
13. International and inter-provincial Ferries.
14. Currency and Coinage.
1. Amendment of provincial constitution.
2. *Direct Taxation* for provincial rev.
3. Borrowing on provincial credit.
4. Provincial offices and officers.
5. Management of public lands in the province.
6. Prov. Prisons.
7. Hospitals, asylums and charities.
8. Municipalities.
9. Trading licenses for revenue.
10. Local works and undertakings.
11. Incorporation of Companies with provincial objects.
12. Solemnization of marriage.
13. Property and civil rights.
14. Judicial administration.
15. Punishment enforcing Provincial Laws.

Commonwealth of Australia: Founded in 1900 :  
Powers of—

The Commonwealth      The States

To make laws for the peace, order and good Government with respect to:—

1. Trade and commerce.
2. Taxation.
3. Bounties, uniform.
4. Borrowing.
5. Postal services.
6. Commonwealth defence.
7. Lighthouses, defence, etc.
8. Meteorological observation.
9. Quarantine.
10. Fisheries.
11. Census.
12. Currency, coinage and legal tender.
13. Banking.
14. Insurance.
15. Weights and measures.
16. Negotiable instruments.
17. Bankruptcy.
18. Copyright and Patents.
19. Naturalisation.
20. Foreign companies.
21. Marriage.
22. Divorce-children.
23. Invalid and old age pensions.

“Every Power of the Parliament of a Colony which has become or becomes a State, shall, unless it is by this constitution exclusively vested in the Parliament of the Commonwealth or withdrawn from the Parliament of the State, continue as at the establishment of the Commonwealth, or as from time to time the Parliament of the State, as the case may be.”

Section 109 says:—  
“When a law of a State is inconsistent with a law of the Commonwealth, the latter shall prevail and the former, to the extent of the inconsistency, shall be invalid.”

Union of South Africa: Founded in 1909 :  
Powers of—

The Union      The Province

Section 59 of the Act says:—  
“Parliament shall have full power to make laws for the peace, order and good government of the Union.”

(There is no more particularisation of this plenary jurisdiction.)

Section 86 amplifies the Union Parliament's powers by limiting the powers of the provincial Parliament:

“Any ordinance made by a provincial Council shall have effect in and for the province as long and as far only as it is not repugnant to any Act of Parliament.”

1. Direct taxation in the province.
2. Borrowing on provincial credit subject to consent of Governor-General.
3. Education not higher.
4. Agriculture.
5. Hospitals and charitable institutions.
6. Municipalities, etc.
7. Local works, not railways and harbours.
8. Roads and Bridges.
9. Markets and Pounds.
10. Fish and Game preservation.
11. Punishment enforcing provincial laws.
12. Other local matters.
13. Matters delegated by an Act of Parliament.

15. Banking and Paper money.
16. Savings Bank.
17. Weights and measures.
18. Bills of exchange and pronotes.
19. Interest.
20. Legal Tender.
21. Bankruptcy.
22. Patents.
23. Copyright.
24. Indians
25. Naturalisation.
26. Marriage and Divorce.
27. Criminal Law.
28. Penitentiaries.
29. Others.
24. Service of processes and execution of judgments.
25. Recognition of State laws and judgments.
26. Special laws for aliens.
27. Immigration and Emigration.
28. Influx of Criminals.
29. External affairs.
30. Relations with Pacific Islands.
31. Acquisition of property.
32. Control of Railways for Military Transport.
33. Acquisition of Railways.
34. Construction.
35. Conciliation and Arbitration.
36. Matters provided for by constitution during Transition.
37. References from State Parliaments.
38. Subjects on which only British Parliament could legislate.
39. Incidental matters

## 2. THE FINANCIAL PROVISIONS IN FEDERAL CONSTITUTIONS

The varying magnitude of the powers of the Federal and of the State or provincial authority, respectively, in each case reflects the varying force of the urge for union. The same is reflected more materially in the financial provisions of these constitutions, or the conventions that have grown up thereunder. In the oldest and the most considerable Federation of our times, the United States of America, the Union Government was expressly denied for a century and a quarter after its creation the right to levy direct taxes. The sixteenth Amendment of the Constitution has changed this state of things since the last fifteen years; and direct tax-receipts now form as integral and important a part of the Federal Budget in the United States as in any other country. But the dread of the champions of the local sentiment is evident in the present Swiss Constitution,—as it was remarkable in the pre-war German Constitution,—in the rigorous refusal of direct taxation to the Federal Government. The present German Constitution allows direct taxes to the Central Government; and to that extent the force of the Union seems to have been intensified as the result of the war. But even in Germany, the Reich Government has to make a refund to the States Governments of a part of these Direct Taxes surrendered by the latter to the former in the moment of dire national necessity. The subjoined comparative statements of the financial resources and obligations in the leading Federations of the world, British as well as non-British, will serve to give a more concrete idea of the apportionment of the financial strength to the obligation placed upon each authority in a Federation. There are certain common features, and a few distinctive marks which set apart one federation from another which we shall emphasise a little more later on.

*I. The Budget of the United States of America*

Items of Revenue			Items of Expenditure		
		\$			\$
Customs ... ..	...	605,499,983	Civil Establishment—		
Internal Rev.—			Legislative ... ..	...	19,678,825
Income Tax ... ..	...	2,224,992,800	Executive ... ..	...	612,198
Miscellaneous ... ..	...	644,421,542	Dept. of State ... ..	...	16,497,669
Other Receipts—			Treasury Dept. ... ..	...	151,560,334
Govt. Securities ... ..	...	45,699,573	War Dept. ... ..	...	360,808,777
Principal „ ... ..	...	...	Navy Dept. ... ..	...	318,909,096
Interest „ ... ..	...	160,319,600	Interior Dept. ... ..	...	302,706,745
Railroad „ ... ..	...	89,737,959	Post Office Dept. ... ..	...	189,038
All other „ ... ..	...	63,474,987	Agriculture „ ... ..	...	156,287,305
Trust Fund Receipts			Commerce „ ... ..	...	30,939,749
(reappropriated for			Labour „ ... ..	...	9,921,644
investment) ... ..	...	48,476,631	Justice „ ... ..	...	24,819,058
Sale of Surplus Property	...	18,068,530	Independent Bureau ... ..	...	35,442,771
Panama Canal Tolls, etc.	...	25,768,390	Columbia District ... ..	...	37,566,521
Miscellaneous Receipts			Public Debt Charges—		
credited direct to appro-			Sinking Fund ... ..	...	333,528,400
priation ... ..	...	...	Foreign Repayt. ... ..	...	159,961,800
Other miscellaneous ... ..	...	188,502,952	Interest ... ..	...	787,019,578
			Postal Deficit ... ..	...	27,263,191
			Panama Canal ... ..	...	8,305,345
			War Finance Corps ... ..	...	...
			Shipping Board ... ..	...	19,011,397
			All others ... ..	...	719,621,361
			Total Expenditure		
			charged to Ordinary		
Total Ordinary Receipts	...	4,129,394,410	revenue ... ..	...	3,493,584,519

*N.B.*—The terms Ordinary Revenue and Ordinary Expenditure are used to denote that the Post Office receipts and disbursements are excluded,



The income of the several states in the Union is derived in a very large proportion from a General Property Tax, charged on real as well as Personal Property, and serving as the basis of income both for the State Government and also for the Municipalities county governing bodies. The aggregate revenues of the several states in 1926-27 amounted to \$2,078·536 million, and the aggregate expenditure to \$1,936·195 million.<sup>1</sup>

The states, it may be observed in passing, are not all of the same size, population, or wealth, *inter se*. Hence if we were to consider their *per capita* Revenue or Expenditure, we should get quite a disproportionate and misleading idea of the State Finance in the Union. The Constitution of 1787 took away the Customs duties from the states; and though the Excise and General Property Tax Revenues were left, the states relied mostly on the last source to eke out their Budgets. In the eighteenth century, and for some time in the nineteenth, this tax satisfied all the requirements of a productive, convenient, and easy source of revenue, since property was mostly in the form of land or houses. With the growth, however, of personal, moveable property,—especially in the form of industrial or Governmental Securities, in the nineteenth century, the old attraction of the General Property Tax disappeared; and the states were hard put to it to devise machinery to prevent tax-evasion, and discover supplementary sources of Revenue. Assessments had to be revised, standardised and made to follow definite rules, while the administration of the assessment department came gradually to be handed over to the central tax authorities to prevent fraud, mistake, or evasion. New taxes discovered to supplement the state resources naturally took the form most suitable to the peculiar industrial or commercial organisation and development of each state. Thus the Corporation Tax became a prime favourite with all those states in which industrial development permitted such a source of income. Franchise Taxes, a peculiarity

<sup>1</sup> Compiled from the Statesman's Year Book, 1928. The States include also Alaska, Hawaii, Porto Rico and Philippine Islands, but no figures are available for the Virginia Islands, Samoa Islands and Guam,

of America, and a growing source of State revenues, may, scientifically speaking, well be regarded as only a variant of the Corporation Tax. But the trend to levy Income and Inheritance Taxes by the State Government, beginning with Wisconsin in 1911, cannot be so lightly passed over; as it is bound to create complexities of double taxation and excessive burdens.

“ These income taxes are assessed and collected under the direction of the central tax authorities and the proceeds are generally reserved for the use of the state; but in Massachusetts, New York and Wisconsin, a distribution is made between the state and the localities ”<sup>2</sup>

The Inheritance Tax, adopted in all except the three states of Alabama, Florida and Nevada, is another growing source of state revenue, usually not shared with the local bodies within the state while the Motor Vehicle License Duty is becoming rapidly popular in the states. The petrol tax obtains in forty-four states at varying rates.

The general position of the State Revenues and Expenditure is well indicated in the following tables compiled from the authority already named.<sup>3</sup>

State Revenue 1924		Percent of Total		State Expenditure <i>per capita</i> , 1924	
		\$		\$	
<i>Taxes —</i>				Highways	4.31
General	Property			Education	3.68
Tax	...	351.60	25.7	Charities, Hospitals and Correction	1.73
Special Taxes	...	226.77	16.6	Miscellaneous	1.25
Poll Taxes	..	3.62	0.3	Genl. Govt.	0.74
Business and Non- business Licenses	.	435.46	31.8	Development of Con- servation of Natural Resources	0.53
Special Assessments		23.86	1.7		

<sup>2</sup> Holcombe's *State Government in the United States*.

<sup>3</sup> Holcombe, *op. cit.*, pp. 370 and 374.

State Revenue 1924	Percent. of Total	State Expenditure <i>per capita</i> , 1924	
	\$		\$
Fines, Forfeit, Es- cheats ... ..	8'04 0'6	Protection to Person and Property ...	0'49
Subventions, Grants, Donations, Pension Assessment ...	133'59 9'8	Health and Sanitation	0'23
Highway privileges ... ..	... ..	Public Service Enter- prises ... ..	0'13
Rents, Interest ..	61 47 4'5	Recreation ...	0'04
Earnings of General Dept. ... ..	113'04 8'3		
Earnings of Public Service Enterprises ..	12'57 0'9	Total ... ..	13 10

It may be added that some states in the Union are allowed subsidies by the Federal Government, as these states themselves are too poor to be able to discharge, from their own purse, the minimum of state functions laid upon them.

In Germany, the Federal Budget consists of similar sources of revenue and expenditure as in the states.<sup>4</sup>

*1927-28 (Estimates)*

Revenue Ordinary	(in Million Mks.)	Expenditure	
Taxes ... ..	6,860.0	Payments to States and Communes ... ..	3,082.9
Customs ... ..	890.0	General Administration (including defence)...	2,361.3
Fees ... ..	207.0	Unemployment Relief	610.0
Mint Profits... ..	190.0	War and Civil Pensions	1,474 8
Surplus of previous year's Extraordinary	200.0	Internal Charges from War (occupation) ...	198.2
Loan ... ..	466.4	Payments of Bonds and Reduction of Debt ...	504.3
Railways ... ..	605.0	Dawes Payments ...	1,778.7
Other Loans... ..	590.9		
Total ... ..	10,010.2	Total ... ..	10,010 2

<sup>4</sup> Post-War Germany, by K. T. Shah,

The chief taxes levied by the federal German Republic, with the yield in million marks of each in 1925-26, include: Income Tax (2,170·0); Tax on wealth turnover (1,686·0), Tax on capital transactions comprising Company Tax, Securities Tax, Stock Exchange Tax and Directors' Tax (103·0), Motor Vehicles (58·0), Stamp Duties on Bills (63·0), Traffic Tax (318·0), Tax on Bonds and Debentures (47·0), Customs (590·0), Tobacco (616·0) and Sugar (236·0); Tax Spirit Monopoly (153·0) and Wine Tax (80·6). The yield is steadily growing; but the tax system of Post-war Germany cannot yet be said to have attained anything like permanence and definiteness.<sup>5</sup>

The resources of the states in Germany are, under the new dispensation, even more meagre than those in the United States. The War, and its legacy of heavy reparation to the ex-enemy nations, have so increased the burden on the Federal Government that they have taken up almost every important source of revenue from the constituent states, and materially added to the ingredients of the German Tax-system. The states, being deprived of their mainstay in revenue—Taxes on Income and Property—have to be compensated by the Federal Government, and hence the very considerable amount of expenditure by the Central authority in respect of payments to the State funds. The total revenue of the constituent states in Germany from all sources amounted in 1926-27 to 1,907·35 million marks, while the expenditure of the states aggregated 1,926·32 million marks.<sup>6</sup>

The Swiss financial system is founded on the utter distrust of the Federal authority in respect of direct taxation. The Federal Government is in charge of the Customs revenue, which forms the bulk (85 per cent) of the central income; proceeds of the explosives monopoly which go entirely to Federal Government, and

<sup>5</sup> Cf. *Post-War Germany*, by the present author.

<sup>6</sup> Compiled from the *Statesman's Year-Book*, 1928. The financial year seems to vary in the different states. The figures given above being for the latest year in the 1928 *Statesman's Year-Book*.

the alcohol monopoly, which is distributed entirely among the cantons, on condition that at least one-tenth of the amount received by the cantons must be employed by them to the combating of alcoholism in its causes and effects. Exemption from military service is purchasable in Switzerland by paying a tax or indemnity to the state; but this is levied through the cantons and the proceeds are shared equally between the cantons and the Federal Government. There are customs duties levied by the cantons which must not degenerate into transit duties of any sort. The mainstay of the cantonal finance lies, besides direct taxation, in the federal subventions received by each.

The Budget subjoined is only by way of illustration.

*The Budget Estimates (1928) of the Swiss Confederation*

Revenue (in francs)				Expenditure			
Capital invested	...	24,097,888		Debt Charge	...	112,752,800	
General Administration				Genl. Administration			
Depts.	...	527,100		Depts.	...	5,134,187	
Political	...	193,050		Political	...	16,654,900	
Interior	...	1,188,950		Interior	...	27,045,731	
Justice and Police	...	2,188,500		Justice and Police	...	8,010,531	
Military	...	1,692,435		Military	...	84,941,864	
Finance and Customs <sup>7</sup>		282,101,970		Finance and Customs		21,304,229	
Commerce, Industry, Agriculture	...	1,596,996		Commerce, Industry, Agriculture	...	58,501,812	
Post and Rlys.	...	8,120,112		Post and Rlys.	...	984,014	
Miscellaneous	...	522,999		Miscellaneous	...	6,219,932	
Total	...	322,230,000		Total	...	331,550,000	

<sup>7</sup> Compiled from Statesman's Year-Book, 1928. The Customs revenue for 1926, amounted to 226,268,400 including 18,725,739 by way of tobacco dues.

The Budgets of the British Dominions Federation reflect similar tendencies at work, and for well-nigh the same reasons. The Commonwealth of Australia shows:—

1925-26.

Revenue (in sterling)		Expenditure	
	£		£
<b>Taxation—</b>		<b>Cost of Depts—</b>	
Customs ...	27,839,889	Governor-General ...	20,928
Excise ...	11,858,989	Parliament ...	468,419
Land Tax ...	2,521,910	Prime Minister ..	944,879
Estates Duty ..	1,411,336	Attorney-General ...	185,427
Income Tax ...	858,046	Treasury ..	9,640,409
Entertainment Tax ...	460,326	Customs ...	1,541,864
War-time Profits Tax* ...	77,491	Defence ..	4,004,837
Total ...	64,373,005	Post-Master-General ...	10,651,925
		Home and Territories ...	699,756
<b>Public Works—</b>		Works and Railways ...	1,811,098
Postal and Services ...	10,741,756	Health ..	176,672
Railways ...	349,768	Markets and Migration ...	685,714
Others ...	...	Total ...	30,841,418
Total ...	11,121,524		
		<b>Miscellaneous—</b>	
<b>Other Revenues—</b>		New Works ...	816,941
Interest, etc. ...	4,594,846	War Services ...	30,171,850
Coinage ...	332,014	Interest State Loans	
Defence ...	130,662	A/c ...	2,084,757
Quarantine ...	30,553	Special Defence Provi-	
Territories ...	41,973	sion ...	3,742,745
Lighthouse... ..	198,353	Total ...	44,109,438
Pension Contribution ...	56,781		
Net profit on Australian			
Note-issue ...	1,048,062		
Miscellaneous ...	316,516		
Total ...	6,791,277		
Grand Total ..	72,285,806	Grand Total ...	75,109,438

\* Compiled from the Australian Year-Book, 1928. The revenue in 1926-27 amounted, according to the Statesman's Year-Book, 1928, to £78,168,285 and ordinary expenditure to £75,532,638.

Amongst all the British Dominions, the Australian Commonwealth Budget is the most interesting, not only because of the intense activity of the State in those regions, but also because of the experiments in centralisation even now taking place there. Under the Constitution of the Commonwealth, S. 81, all revenues are to be paid into a general Consolidated Revenue Fund, while other monies are credited to special funds. Until the end of 1906-7, the balance of the Consolidated Revenue Fund, after the Commonwealth expenditure, was paid to the states. From 1907-8, until the abolition of the book-keeping provisions of the Constitution, the states received only three-fourths of the net Customs and Excise Revenue, and the balance of the Consolidated Revenue Fund was transferred to the Invalid and Old-age Pension Trust Account, and the Naval Defence Trust Account to provide for expenditure in subsequent years.

At the present time, the financial relations between the several states and Commonwealth are governed by special conventions, the substance of which is appended below.

Since the Commonwealth Government is levying direct as well as indirect taxes, the states needed funds for their own purposes, and they were paid since 1910 annual subsidies of £1 5s. *per capita*, with special concessions to Western Australia and Tasmania, for a period of ten years. This period expired on the 30th June, 1920, but the subsidies were continued provisionally up to 1927, when they were abolished.

By agreement between the states and the Commonwealth, economies have been effected in the tax-collecting machinery by allowing the same set of officers to collect both the State and the Commonwealth taxes in each state. The Commonwealth also offered, in 1927, to relieve the states of their heavy load of indebtedness, agreeing to pay the interest on these debts from the Commonwealth funds, and also to make adequate provision by way of sinking fund.

The subjoined table gives an idea of the States' (Consolidated) Revenue and Expenditure in Australia;

(1925-26)\*

Revenue			Expenditure		
		£			£
Taxation	...	23,452,704	Public Debt	...	28,191,145
Public Works Services		57,285,057	Railways & Tramways		39,176,752
Land	...	4,929,259	Justice, Police & Prisons		4,713,986
Subsidy	...	7,624,099	Education	...	9,578,325
Miscellaneous	...	8,127,134	Medical and Charities		5,210,327
			Miscellaneous	...	16,724,800
Total	...	101,418,247	Total	...	103,594,335

*Union of South Africa (Federal Finance), 1923-24*

In the Union of South Africa, where the powers of the constituent provinces seem to be the latest considerable, the Budget of the Federation is as follows:<sup>9</sup>

Revenue Items		Amount in Million £		Expenditure		Amount in Million £	
		1923-24	1927-28			1923-24	1927-28
Customs	...	6'670	7'985	General Govt.	...	3'178	8'352
Excise	...	1'945	1'922	Law, Order and Protection.	...	5'270	8'352
Mining Rev.	...	2'109	1'650	Higher Education, Science, etc.	...	0'366	0'955
Licenses, Trading and Professional	...	0'117	0'160	Public Health	...		
Stamp Duties & Fees		0'827	0'870	Medical, Lepers & Mental Disorders	...	0'785	0'932
Income Tax	...	5'408	6'522	Lands and Agriculture		1'672	1'472
Excess Profits Tax	...	0'027	..				

<sup>9</sup> Official Year Book, Commonwealth of Australia, 1928, pages 998-999. The state taxes, it may be added, include Probate and Succession Duties, Land Revenue and Income Tax, License Duties, Stamp Duties and Miscellaneous.

<sup>10</sup> The Budgets for the two years have been compiled from two different sources, the former from an earlier Year Book of the Union, the latter from the Statesman's Year Book for 1928. Hence the slightly different grouping and combination adopted above.



Revenue Items	Amount in Million £		Expenditure	Amount in Million £	
	1923-24	1927-28		1923-24	1927-28
Estate and Succession Duty ... ..	0'441	0'550	Mines and Industries	0'380	0'391
Native Taxes ... ..	0'898	0'900	Public Works ...	0'755	0'938
Pass Fees ... ..	0'037	0'050	Posts, Telegraphs and Telephones	2'784	2'981
Land Revenue ... ..	0'173	0'180	Native Affairs ...	0'350	0'340
Forest Rev. ... ..	0'077	0'090	Miscellaneous ...	0'129	0'175
Rents of Govt. Property ... ..	0'186	0'210	Unemployment Ex- penditure ...	0'123	0'280
Interest ... ..	1'068	1'550	Public Debt ...	3'952	4'668
Departmental Receipts ... ..	0'581	0'700	Total Ordinary ...	19'720	22'137
Fines and Forfeitures	0'255	0'250			
Miscellaneous ... ..	0'245	0'305			
Postal & Telegraph & Telephone ... ..	3'179	3'579	Subsidies to Provin- cial Govts. ..	4'429	5'511
	24'252		Interest on Capital of Railways and Harbours ...	4'944	5'474
Interest on Rlys. and Harbours Loan Capital ... ..	4'632	4'33			
Total ... ..	28'885	27'433			

Prior to 1913-14, the expenditure of the Provincial Government was entirely met by grants from the Federal Government, even as the Indian Provinces before 1870 used to receive similar grants from the Government of India. Since then various Financial Relations Acts have been passed by the Union Parliament, defining the conditions under which subsidies are granted to the Provinces assigning to them certain revenues, and defining their powers of provincial taxation. Under Act 46 of 1925, this subsidy is based on the number of school pupils. Certain revenues collected by the Union are assigned to the Provinces, and special grants made to the two smaller provinces. The aggregate provincial revenues amount to over £10 million; and the sources of provincial taxation comprise License fees and local dues.

In the Dominion of Canada, where also the powers of the constitutional provinces are in consideration, the Budget is as follows :—<sup>11</sup>

Revenue	1926-27	Expenditure	1928
	\$		\$
Customs ... ..	141,968,678	Public Debt including Sinking Funds ..	131,597,811
Excise ... ..	48,513,160	Charges of Management ... ..	917,050
Public Works including Canals ... ..	1,501,685	Civil Government ... ..	11,827,027
Post Office... ..	29,069,169	Administration of Justice ... ..	2,965,200
War Tax Revenue ... ..	156,167,434	Royal Canadian Mounted Police ... ..	2,049,383
Various ... ..	21,475,700	Penitentiaries ... ..	1,762,952
Total ... ..	398,695,776	Legislation ... ..	2,352,106
		Agriculture ... ..	6,440,500
		Health ... ..	748,800
		Immigration & Colonisation ... ..	3,080,000
		Pensions .. ..	38,377,262
		Superannuation ... ..	1,471,600
		National Defence ... ..	15,914,462
		Railways and Canals chargeable to income; Mail subsidies and steamship subventions ... ..	804,675
		Ocean and River Service ... ..	3,541,840
		Lighthouse and Coast Service ... ..	2,878,120
		Scientific Institutions ... ..	995,570
		Steamboat Inspection ... ..	184,610
		Fisheries ... ..	1,675,000
		Subsidies to Provinces ... ..	12,516,740
		Mines and Geological Survey ... ..	604,400
		Indians ... ..	3,981,574
		Govt. of North-West Territories ... ..	415,000
		Govt. of Yukon Territory ... ..	180,000
		Public Printing and Stationery ... ..	183,500
		Dominion Lands and Parks .. ..	4,080,022

<sup>11</sup> Official Year Book : Union of South Africa, pages 754-755.

Revenue	1926-27	Expenditure	1928
	\$		\$
		Soldiers' Land Settlement ...	3,375,000
		Soldiers' Civil Re-establishment ...	7,180,500
		Miscellaneous ...	2,597,292
		National Revenue ...	11,308,201
		Railways and Canal chargeable to collection of revenue ..	2,403,487
		Public Works chargeable to collection of revenue ...	1,063,830
		Public Works chargeable to income ...	13,562,878
		Post Office ..	31,849,059
		Trade and Commerce	3,904,260
		Labour ...	1,404,000
		Total Consolidated Funds ...	330,547,025
		Railways & Canals Capital ...	19,680,608
		Public Works Capital	2,090,000
		Marine Department ...	1,721,780
		Total Capital ...	23,492,388
		Total ...	354,039,413
		Adjustment of War Claims ...	220,000
		Grand Total ...	354,259,413

*Provincial Ordinary Revenues and Expenditures*

Province	Revenue	Expenditure
	\$	\$
Alberta ...	11,912,128	11,894,328
British Columbia ...	20,608,672	18,230,625
Manitoba ..	10,582,537	10,481,652
New Brunswick ...	4,206,853	4,078,775
Nova Scotia ...	4,467,484	5,969,544
Ontario ...	50,841,043	51,251,781
Quebec ...	27,206,335	26,401,481
Prince Edward Island ...	832,552	736,114
Saskatchewan ...	13,317,398	13,212,483
Total ...	143,975,001	142,226,783

Provincial Governments in Canada are in the position of having, under section 118 of the British North America Act, 1867 (30 and 31 Vict., c.3), and the British North America Act, 1907 (7 Edw. VII, c.11), a considerable assured income paid to them in subsidies from the Dominion Treasury. In addition, through their retention of ownership of their lands, minerals and other natural resources, the provinces, which by the voluntary action of their previously existing government entered Confederation, raise considerable revenues through land sales, sales of timber, mining royalties, leases of water-powers, etc., while the prairie province receives from the Dominion special grants in lieu of land revenues.

Further, under section 92 of the British North America Act, 1867, Provincial Legislatures are given authority to impose direct taxation within the province for provincial purposes, and to borrow money on the sole credit of the province. From the commencement of the twentieth century, the Canadian public began to demand increased services from the Government, particularly along the lines of education, sanitation, public ownership, and operation of public utilities. The performance of these functions necessitated increased revenues, which had in the main to be raised by taxation. Among the chief methods of taxation to be employed has been the taxation of corporations' succession duties. Prominent among the objects of increased expenditure in this same period are education, public buildings, public works and enterprise and charities, hospitals and corrections. Provincial Government is cheaper per head in the *laissez faire* eastern provinces.

### 3. GUIDING PRINCIPLES OF FEDERAL FINANCE DEDUCED

To this somewhat lengthy review of the actual conditions of the federal finance in the most considerable Federations of the world, we might add the example of the United Socialist Soviet Republic of Russia in the East, and of Brazil, in the West. But

they all serve to bring out and confirm the following basic principles of federal finance.

Federations are, in their nature, the creation of an urge to safeguard, among cognate peoples in close neighbourhood of one another, the political and material interests of the nation thus brought into existence. The powers and resources placed at the disposal of this new compound or Federal State, vary with the degree of this urge to unite—according to the nature and extent of the danger against which it is sought to provide by means of the Union. Whenever the Federal State is the result of a voluntary compact between the constituent states for the purpose—as is but too often the case—these powers and resources are entrusted to the Union or Federal Government at the expense of its constituents. This factor alone must be held to explain the variation in the exact shade of strength vesting in the several federations. Economic considerations of national development have been exerting an ever-increasing pull in the last half century and more; so that the federal organisations of the later period have been framed with a view to assure sufficient power and resources in the uniting states to effect the end in view. Thus to take but one example, almost invariably the Customs revenue has been left in all federations to the Central Federal authority. The motive for this arrangement may have been the dread of the combining states to entrust too great and too direct an authority over their own citizens to the new state.

The vicissitudes of history and the changes of public opinion on the matter have wrought another change in this particular instance, which is all the more surprising because nobody seems to have yet noticed it in all its intensity. The Customs revenue was originally entrusted to the Federal authority, in order to enable the latter to have a substantial source of its own income. Since the latter half of the nineteenth century, however, the main purpose of the Customs duties seems not so much to raise an adequate revenue for the Federal Government; but rather by its means to accomplish an intensive industrial development of the

country, without which the country would be a helpless prey to its foreign competitors. It may be that the industrial conditions of the several constituent states of a federation might be such as to begin permanent antagonism mutually; in which case the power to manipulate the Customs revenue so as to afford the most effective protection to the country's industry may cause the acutest party divisions among the politicians. That hitherto the financial history of the leading federations has not disclosed any such irreconcilable cleavage of interests among the constituent members of these countries, is evidence, not of there being no such difficulty in reality; but rather of the immense leeway to be recovered by this means which would trench upon no absolutely irreconcilable interests, if only the Customs tariff were scientifically devised.

Customs revenue, however, even when it was increasingly given a protectionist complexion, did not cease to be productive at the same time. In the most rigidly protectionist countries, the Customs revenue is a most handsome source of the federal revenue. It is supplemented in many cases by Excise duties on home products, either for purely revenue reasons, or even for reasons of a social nature. In either case, the federal authority is generally considered to be the most competent to achieve the end in view, even if it be not left exclusively in charge of the Excise revenue.

Where, however, either Customs or Excise revenue is, for whatever reasons, a decadent source, the problem of federal finance becomes very much complicated. Fees and fines and forfeitures—even in so far as they are left in charge of the Central authority—are never an adequate substitute for either of these sources. And if the urge of national development, and more active or positive Social reform remains strong and persistent as ever, alternatives would have to be devised, to make up the deficit. Hence the incursion into direct taxation of income and property, which seems to be a growing feature of our age. The encroachment of the Central Federal Governments on these state sources of revenue has rendered necessary specific Federal subsid-

ies to the states without which the latter cannot carry on the duties imposed on them.

Two unexpected—and rather intricate—consequences of this development may also be noted in this connection. While the Federal powers of levying direct taxation are growing, the states have not yet surrendered all their original rights in this regard. If the United States Government levy since 1913, direct taxes on income,—the states likewise use the General Property Tax, and supplement it by a number of other similar taxes. Elsewhere, the subsidies paid by the Federation to its constituent states, are in intent and purpose in compensation for the sacrifice by the states for their right to levy direct taxes on their own citizens. There thus comes into existence a margin of debatable ground where both the Federal and the State authorities may be simultaneously taxing the same income or property. The problem of avoiding Double Taxation has assumed, in recent years, international dimensions, but, quite apart from that, in almost every federation this problem has an importance all its own.

Apart from questions of taxation and tax-receipts, the problem of Federal finance has to consider another complication in the shape of the revenues from public property and enterprise. Public property, in the shape of the landed domain, is, in all new countries, a common revenue-yielding asset, but usually in the hands of the constituent states. Revenue is raised from land in a variety of ways. The State ownership of land is effective in theory, and used only for purposes of levying high Death duties or Land Increment Value taxes. Forest domain, similarly, is as a rule within the jurisdiction of the constituent states. Its immense possibilities for productive purposes have yet hardly been realised. On the other hand coastal and deep sea fisheries are a reserved subject for the Federal Government, though the subject is used rather for taxation than as a kind of public enterprise for earning a profit for the State. Means of transportation and communication—railways and tramways, canals and navigable rivers, posts, telegraphs and telephones—also form largely part

of the public enterprise, mostly federal in the larger units which have necessarily an inter-provincial scope. The ideas, however, which govern the revenue from such sources are so varied and conflicting that we can hardly say that they are earning assets invariably. Taken collectively they are ; but taking each unit by itself, the service expected from such units is so considerable and is rendered so effectually, that the idea of a pecuniary profit from its operation is entirely subordinated. The gain is indirect, though by no means insignificant ; and both the constituent states and the federation,—in each case—benefit.

Public enterprise,—industrial, agricultural, or commercial,—has yet to be properly appreciated as a means of procuring a real surplus of wealth for the State. While a tax is necessarily a deduction from private wealth, confiscated for public benefit, the profits of public enterprise are a direct gain to the community,—a net addition to the total wealth, whether or not it takes a tangible or monetary form. In fishing as in mining, in land as in industry, in banking as in transport, there is a handsome scope for such surplus; but the existence of private interests makes the problem complicated by the question of the *modus operandi* for socialisation.

For a Federal Government, the advisability of resorting to profitable enterprise cannot be overemphasised. Not only in all federations, as in all modern countries, is the scope of state activity very much enlarged, involving, in consequence, ever-expanding resources; but the incessant and inevitable bickering between State and Federal authorities in regard to problems of double or overlapping taxation, make it imperative that new sources of Federal and State revenue be devised, which, even though not absolutely exclusive, would be sufficiently distinct and productive. Such sources, least burdensome to the citizens at large, are found most effectively in an extension of the Public Domain,—giving to each component part of a federation adequate, independent, equitable and economic sources of revenue. The dividing line between the states and the federal enterprise may



be found in the not very difficult test as to whether or not a given enterprise is fixed and local in its character—e.g., agricultural land or forests, or whether it is necessarily inter-provincial or coterminous with the Federation. The former must be assigned to the constituent states, the latter to the Federation. As a further guarantee against needless overlapping, the principle of exempting from taxation any part of the public property or domain of any unit at the hands of another, federal local must be universally adopted.

The distinctive mark of public finance is the relatively greater decisive importance of the expenditure side as contrasted with the revenue. And yet we have hitherto dealt, at disproportionate length to all appearance, with the revenue side of Federal finance. The explanation lies in the fact that the very insistence on revenue is with a view to indicate the increasing force of growing expenditure, both of the constituent states and of the federation. The old function of public defence, entrusted almost universally to the Federal Government, is rapidly falling into the second class, in comparison with the new developmental duties laid down on modern states by themselves. The monies needed for meeting with these obligations are seldom provided entirely by the current revenues. Recourse has, therefore, to be had to borrowing; and the interest payment on these loans, together with provision by way of sinking fund, make no inconsiderable proportion of the expenditure of modern federal states. Not all the monies obtained by modern states from borrowing are spent on productive objects. Social Services on a very considerable scale are generally met from tax-revenues, as the return from these services to the state or the community is in a form impossible to compute in terms of money. Both the Federation and the Combined States have such services assigned to them under the Constitution or by special convention. And, though here, too, there is no exclusive division of functions as between the States and the Federation, the line of division is much clearer and more firmly marked than in the case of the

revenues. Education in the earlier stages, local sanitation, public health, relief of destitution are among the most considerable of these purely local functions; while social and industrial insurance, old age pensions, unemployment benefit, general maintenance of law and order belong as a rule to the Federal Government. Further expansion—when accomplished—is distributed as between the component states and the Federation, according to the nature of the service and the requirements of its main beneficiaries.

Allusion has been made already to the occasion for and the use of public borrowing for the discharge of those functions which cannot be covered by the recurrent revenues. The power to borrow monies, on the security of the general credit of the State, or in rare cases of any specific assets, is too precious a mark of autonomy to be relinquished easily, even when independent states voluntarily combine to form a federation. In all federations, therefore, which are the creations of a special pact, the use of the public credit belongs to the constituent states as well as to the Federal Government,—at least in theory. In practice, however, the fact that the states borrow in the same money market as the Federation, and for subjects much less productive than those for which the Federation has to borrow—militates gravely against the constituents of the Federation, and even at times against the Federation itself. While, therefore, the power to borrow and to pledge any specific assets at the disposal of these states is allowed to rest with the states in theory, in practice arrangements have been made in more than one federation for the public debt of the entire federation to be managed by the Central authority. In India, though the provinces are theoretically free to borrow on their own credit, in practice the Central Government borrows for all. This analogy obtains in the British Dominions. The European and American models—United States, Germany, Switzerland—show a continuance in practice of the states' right to borrow for state development purposes. This additional complication of the rights and duties of local governing bodies like municipalities—as against the

states or provinces and the federation—has been deliberately ignored, while discussing the revenues and expenditures of the states and their federations—not because the complication did not exist, but because, if disregarded, it would not essentially affect the main argument.

Connected, by analogy as well as on account of some recent practices, with the foregoing, is the question of the federal currency and of the monetary system in general. Coinage and Currency are,—with the possible exception of Switzerland—a federal subject, including the necessary control over Banking. The connection between the control and manipulation of the currency (or monetary) system in a modern state, and over the general credit within that state, need not be elaborated here. When the use of this control and influence is equitable as between the several states, or the various economic interests, no objection can be taken to the arrangements. Cases, however, do occur,—and more can be imagined,—in which the central authority might justly be suspected of inequitable dealings through its control over the currency and the credit system of the community. The remedy lies in such legislation, for the exercise of this power, as would ensure an automatically adequate as well as equitable distribution among the several components of and interests in a federation. Any pecuniary profit derived from this source ought to be equitably shared among the Federation and its constituents.

A word in conclusion about the general supervision of the financial administration in the Federal State, and the audit of its several sets of public accounts. Federations being as a rule democratic structures, with well-ordained bodies of popular representatives, we need not dwell at length upon the budgetary forms and procedure, intended to inculcate economy and enforce responsibility upon those charged with the actual administration. But the fact must be noted that the mere volume of the work commonly coming before the representative legislatures of modern federations prevents its exercising its powers of effective supervision over administration in details. The personnel of legislature

is seldom such as to provide the knowledge, energy and acumen necessary for the effectual exercise of this power. In the case of the individual states, the volume of the work before the legislature is limited; but whether because of the better talents of all the provinces being attracted by the more extensive scope of the federal legislature, or for any other reason, the fact remains that in many cases the supervision over the financial administration of the constituent states is only nominal. The power of the legislature, however, cannot and must not be taken away. But, in the best interests of public economy, it would perhaps not be unwise to have an independent audit of the public accounts in each state, over and above the audit arrangements of the state itself. The outside audit, preferably by federal officers, and under a common code of audit regulations, would not only provide a valuable impartial check by a competent body; it will secure that tallying of the outlays made with benefit gained or service received, which generally escapes the eye of the local or departmental auditor.

The problem of public finance has here been treated, strictly apart from the case of India, and only so as to ascertain from actual experience the salient features and guiding principles. The problem in India will have to be solved in the light of these. But India has her own peculiarities, not only because of the history and tradition which have brought about the existing position as between the British provinces and the Indian Government, but also because of the existence of the Indian States. These latter are neither equal among themselves, nor comparable with the British provinces as units of a common federation. Their constitution is different, and their relations with the rest of India are governed by Treaties and engagements of an infinite variety. And yet they are integral parts of the country. No solution of the problem of Indian Finance could be satisfactory which ignores these peculiarities, or fails to harmonise them all in a consistent whole.

---

# PANCHAYET FINANCE

BY

V. L. D'SOUZA,

*Mysore University.*

## 1. PRINCIPLES OF LOCAL FINANCE

Seligman has drawn pointed attention to the two regulating principles of public income, viz., payment of taxes according to ability, and payment of taxes in proportion to benefit received or cost incurred. He has also defined the proper spheres of the two principles in the general plan of public finance. He says, "while the obligation of the citizen to contribute to the general burdens should be regulated by the principle of faculty or ability, it is eminently proper that, in the case of the local bodies more attention should be paid to the principle of benefit."<sup>1</sup> The canons enunciated by Seligman no doubt point to the solution of the fundamental problem of the relations between the central and subordinate branches of Government, viz., how the burdens of finance and administration can be best apportioned among the various spheres of Government. But the principles are only of limited application, because between services rendered by the local authorities the direct benefit of which can be individualised and measured, e.g., gas and water supply, and services of national importance rendered by the central administration the benefits of which cannot be localised and the payments for which

<sup>1</sup> *Vide* Seligman, *Essays in Taxation*, page 478.

must come from the national revenues collected in accordance with the principle of ability to pay, e.g., security and justice, there are very many cases of local as well as national expenditure in which faculty and benefit, general interest and special advantage are mixed in different proportions and so intermingled that a simple and uniform mathematical expression of the relation cannot be struck. An analysis of the European system of local finance yields three categories of local income: (1) Contributions compulsorily obtained from persons of property who derive special benefit from the public outlay as the construction of a highway or a railroad; (2) Fees or payments made by particular individuals who derive particular advantages from the expenditure of local authorities as, for example, market tolls, slaughter-house dues, water-supply charges; and (3) Taxes, direct or indirect, real and personal, levied principally for the performance in the localities of services of national interest and importance. The three sources of local income are set forth in the order of the stress laid upon them by European practice. It will be seen that taxation comes last and is resorted to when the other methods are tried and found insufficient. Even if, as is usual, taxation is necessary, a distinction is made between the various alternatives offered. Thus the Prussian law of 1893 instructs the authority to levy the taxes first of all on land and building, then on trade on the principle of direct benefit and lastly on income as the measure of general ability.

The English local authorities on the other hand depend almost entirely on the rates, i.e., charges levied on the annual rental value of all kinds of immovable property. And what is even more characteristic of England, all the local authorities—counties, county boroughs, rural and urban councils, the Poor Law Authorities—practically get their revenue by the method of the rates.<sup>2</sup> Says Cannan, "Almost all the money raised by English

<sup>2</sup> *Vide* Wright and Hobhouse, *Local Government and Local Taxation in England and Wales*, page 177.

local taxation at present is raised either by means of the poor rate or by means of other rates, which, though they have names of their own, are in reality nothing but additions to the poor rate.”<sup>3</sup> The pressure on the rates, however, is relieved in great part by the grants-in-aid of local expenditure and under the Churchillian finance the whole machinery of rates and grants is being overhauled, so that the pressure on these two main sources of local income will be more or less equalised and equitably distributed.

In India, due primarily to historical conditions and political circumstances, power was concentrated in the hands of the Central Government and the local bodies became what the Seal Report on Mysore Constitutional Reforms says, “the paralytic lower limbs of the administration.” A reaction has now set in in the opposite direction and there is a devolution of powers from the centre to the circumference, from the larger to the lesser units. Thus in the rural tracts of India, the first unit to be created in the process of devolution was the district board. But the unit was unwieldy and failed to generate a real spirit of local administration which caters to the needs of all parts of the unit irrespective of distance from the headquarters or of importance to the district exchequer. Some of the power and resources of the district boards were thus transferred to taluk boards which in their turn produced their own difficulty. On the one hand they suffered from inadequate funds and insufficient work and on the other they did not reach down to the real foundation of Indian body politic, viz., the village. During the last few years Panchayet Acts have been passed in the Punjab, the United Provinces, Central Provinces, Bengal, Bombay, Madras and Mysore. The Village Panchayets have been given certain powers of taxation, entrusted with certain duties connected with rural welfare and in some provinces are endowed with jurisdiction in petty civil and criminal cases.

<sup>3</sup> Cannan, *History of Local Rates*, page 2.

The dévolution of power from the Central Government to the regional authority and thence to the village body has not been accompanied by a systematic adjustment of the fiscal relations and a proper distribution of the fiscal powers between the various jurisdictions. Hence the taxation of land still persists in being not local but provincial, grants from the State Treasury assigned to local authority scarcely make any impression on local finance, and additions to State Income Tax by which a large proportion of revenue is obtained by the French and German local bodies are under the present conditions of the income-tax in India hardly a matter of practical politics. In other words the principles of ability and benefit are not so clearly marked off in the operations of national and local finance as may be demanded from the point of view of the efficiency of the services and equity in the distribution of the burdens.

## 2. FUNCTIONS AND DUTIES OF THE PANCHAYETS

The Village Panchayets, rural republics as Sir Thomas Munro called them, were a conspicuous feature of India before the advent of the British. They enjoyed more or less complete autonomy and administered the affairs of the village with efficiency. The village communities contained within themselves all the elements of a State and while kings fought and died, empires waxed and waned, the village life continued along much the same lines generation after generation. The amazing vitality and cohesive power of the villages stood out in marked contrast in a country swept over as it was by invasions and torn by internecine warfare. As recently as 1830, Sir Charles Matcalf wrote of the village communities, "little republics, having nearly everything they want within themselves and almost independent of outside relations. They seem to last where nothing else lasts." Under the British rule, with its uniformity and centralisation in civil and criminal



justice, in revenue administration, communications, and police organisation, the village lost its integrity as well as its autonomy and sank to the position of a unit of administration for revenue purposes. The British Government once it had fully established the machinery of central administration cast about for an instrument of local administration and found it in the survival of the Village Panchayets. In his historic despatch on the Reforms in 1908 Lord Morley dealing specifically with the question of Village Panchayets observed, that the village in India, generally, is the fundamental and indestructible unit of the social system, surviving the downfall of dynasty after dynasty. He desired the Government of India to consider the best way of carrying out the policy that would make the village a starting point of public life. The Decentralisation Commission of 1909 urged strongly the desirability of the Village Panchayets for the administration of local affairs. To quote from their Report, "We are of opinion that the foundation of any stable edifice which shall associate the people with administration must be the village, as being an area of greater antiquity than administrative creations, such as tahsils, and one in which the people are known to one another and have interests which converge on definite and well-recognised objects like water-supply and drainage. It is probable indeed that the scant effort hitherto made to introduce a system of rural self-government is largely due to the fact that we have not built up from the bottom."<sup>4</sup>

That there should be a local authority in every village to look after the group of services which are best administered by a body representative of, and responsible to, the inhabitants is a self-evident proposition. In Europe every commune has its communal council and in England every parish has its parish meeting. In fact no State can function properly unless it can depend on an organ of Local Government for the administration of those

<sup>4</sup> *Vide* Report of the Royal Commission on Decentralisation, paragraph 699.

of its services which can be most efficiently provided by authorities on the spot. The Panchayet will do for the Local Government in India what the commune and the parish do for the Local Government in English countries. The new Panchayet will differ from the old pattern in so far as modern conditions of life differ from those of old. For instance, the sanctions by which the Panchayets and its committees compelled obedience, were largely religious and social. These sanctions are now largely broken down under the reign of law which is no respecter of castes and customs. Individualism has penetrated the life of the rural society and it has become difficult to mobilise the village people for common action to secure common welfare. The problem therefore is to revive the Panchayet not in its pristine simplicity and with its religious sanction, but to reform and reconstruct it to suit the changing conditions of rural life and the temper of the times. What is really needed is the establishment of an authority in each village constituted in accordance with the principles and practice of modern democracy and equipped with legal functions for enforcing its will in matters affecting the welfare of the rural community. In a country like India where the nation lives in villages, village building is a *sine qua non* of nation building.

As one scans the Panchayet Acts of the various provinces one gets the impression that to the powers and duties, functions and responsibilities of the village bodies there is no end. A large number of the duties are specifically mentioned in the Acts, while power is given to the Panchayets to add to them with the consent of the higher authority, and power is also given to the higher authorities to transfer some of their responsibilities and delegate some of their functions to the Panchayets. The duties and responsibilities of the village bodies in the various provinces are similar. They include the preservation and improvement of public health, sanitation, conservancy and the prevention and abatement of nuisances, the supply of water for domestic use, the cleansing of the public places in the village such as drains,

tanks, wells and roads, the control of grazing lands, the management and maintenance of cattle pounds, construction, maintenance and repair of minor roads, drains and bridges, lighting of the village, the maintenance and regulation of the use of public buildings vested in the Panchayets, and the supervision of the village school. In addition to this formidable list of duties a Panchayet may undertake other works of public utility calculated to promote the safety, health, comfort or convenience of the villagers while the Local Government or the Local Board may authorise any Panchayet by a general or special order to exercise any functions and perform any duties other than those already specified.

In no Panchayet Act are the duties and functions of the village bodies set forth with such fulness and precision as in the Mysore Act. The duties of the Panchayets are divided into three categories. In the first place there are obligatory duties, twelve in number, costly to discharge and severe in their incidence. Secondly, there are discretionary duties such as provision of facilities for travellers, relief of the poor and the sick, control of cattle-stands and grazing grounds and the development of education, agriculture, co-operation, the rural industries and trade, duties which will entail considerable outlay and may involve the Panchayet in commitments far beyond their resources. In the third place there are delegated duties, that is to say, duties transferred to the Panchayets by the Government. They include management and prohibition of village forests, discharge of the function under the Tank Panchayet Regulation of 1911, maintenance and control of institutions and works, supervision in village schools and management of minor Muzrai institutions. The Panchayet has also power to lay out new roads, construct new buildings and improve waterways, and construct, repair and cleanse tanks. These again are functions which will tax the resources of the most prosperous village Panchayets and when undertaken light-heartedly may threaten the equilibrium of the Panchayet Budget.

### 3. FINANCIAL RESOURCES AND TAXING POWERS OF THE PANCHAYETS

The Panchayets in Mysore as well as elsewhere are charged with heavy responsibilities, some of which are obligatory and others optional. The Provincial Governments have also endowed the village bodies with vast powers and potentialities. The question naturally arises whether the financial resources placed at the disposal of the Panchayets are adequate and commensurate with a proper discharge of the duties and responsibilities. For an answer to the question, one has to go to the Panchayet Acts and examine the heads of tax and non-tax revenue assigned to or available to the village bodies and estimate the productivity of all the items of revenue. The non-tax revenue includes items like contributions from Local Boards and Provincial Government, receipts from communal income, e.g., sale of cattle droppings and tea produce and velal grass, fines levied by Magistrates and Panchayet courts, voluntary labour contribution such as that required for the removal of prickly pear, construction of schools and repair to roads and donation from private persons. As regards taxation powers, the Acts do not proceed on a common plan. The Bombay Act makes it obligatory for the Panchayet to levy a house-tax and also endows them with powers of additional taxation on owners and occupiers of houses or lands within the village and further empowers them to impose an octroi. In Madras option is given to the Panchayets to choose any tax or taxes out of many which are specified. Discretion is also given to them to submit proposals for any other tax or fee which it may find to be convenient or suitable to the village community for the approval of the Local Government. The Bengal Act compels the Union Board to impose yearly on the owners or occupiers of dwellings within the Union a rate amounting to a sum required to meet the expenses of the Board in carrying out all the purposes of the Act. The rate should be an assessment according to the

circumstances and property within the Union of the persons, provided that the amount assessed upon any person in any one year shall not be more than Rs. 84. The Panchayet Act of Mysore lays down that every Panchayet shall levy a tax on all houses, shops or places of trade or business, vacant sites, hittals and carts in the village or villages within its jurisdiction, subject to a maximum to be prescribed by the Government. The Act also empowers the Panchayets to levy with the sanction of the Government any tax, cess, rate, license or fee for the discharge of any of the duties imposed upon it, provided that the payment of the charge can be commuted into a contribution of labour not exceeding 18 days at the option of the person concerned.

A controversy has raged round the question whether the powers of taxation conferred on the Panchayets should be permissive or obligatory. The Madras Act gives the option to the Panchayets to choose any tax or taxes out of many which are specified. The list is illustrative rather than exhaustive, for the Act allows a Panchayet to submit proposals for any tax in addition to those specified for the approval of the Government, who may sanction its levy in the village. The Bombay Act on the other hand lays down that, in every village a house tax shall be levied, and that a Panchayet may in addition levy any tax upon the owners or occupiers of houses or lands within the limits of the village. The Mysore Act follows the example of Bombay and compels every Panchayet to levy a tax on all houses, shops, places of trade and business, vacant sites, hittals and carts subject to the maximum prescribed by the Government. The Act further empowers the Panchayet to levy with the previous sanction of the Government any other tax provided that the tax-payer is given the choice to commute the payment into a contribution of labour not exceeding 18 days. Thus the practice differs from province to province. The advocates of permissive taxation take their stand on the recommendation of the Decentralisation Commission which was embodied in a Resolution by the Government of Lord Hardinge and finally endorsed by Mr. Montagu and Lord

Chelmsford in their Report on Indian Constitutional Reforms. To quote from Lord Hardinge's despatch, " Powers of permissive taxation may be conferred on Panchayets, where desired, subject to the control of the Local Government or Administration, but the development of the Panchayet system should not be prejudiced by an excessive association with taxation." The general argument for optional taxation proceeds on the assumption that the success of the Panchayet is imperilled by the compulsory levy of a house tax. Self-government in the province as well as in the village no doubt connotes self-taxation, but it does not mean that self-government involves the obligation of raising taxation by a particular mode. That the Panchayets can be worked with a large measure of success on the principle of optional taxation is borne out by the experience of Madras. The Registrar-General of Panchayets in his Report for 1926-27 writes, " There is little to be added to the statements made in my last review as regards the levy of taxes and fees in Panchayet areas. Each additional year of experience in the work I am in charge of has only served to fortify the faith that I have in the readiness of our people in the rural areas to incur reasonable sacrifice if it is needed for subserving the common welfare and to furnish fresh evidence in support of my conviction stated in my review for 1924-25, namely, that it is not difficult to persuade villagers to tax themselves, provided it is made clear to them—(a) that the money raised will be spent in the village; (b) that they will be left free to choose the form and rate of taxation subject to reasonable control; and (c) that they will not be called upon to pay out of such taxes for services which the Government or the Local Boards are now bound to find money for."<sup>5</sup> But the Panchayet scheme is worked in a relatively small number of villages in Madras, those in which its success could be more easily anticipated, and the testimony of the Registrar-General may not apply to a province where the

<sup>5</sup> *Vide* Annual Review of the Working of the Panchayets in Madras, 1926-27, Sec. 39.

Panchayet system is applied to every village without exception. The Bombay Committee appointed in 1926 to examine the question of the future of the Village Panchayets decided that the house-tax should be imposed by all Panchayets.<sup>6</sup> Compulsory taxation has many points in its favour. The statutory obligation helps the villages in the sense that as soon as they raise certain funds they will be free to take some responsibility upon themselves. Where no tax is collected, it is unlikely they will interest themselves in the village affairs. At the same time they establish a claim that any contributions received from the Government or other agencies for their benefit should be made over to them for expenditure. The villagers must realise that if they want any help from Government they must first help themselves and they must show that they are prepared to tax themselves to some extent before they can expect the Government to come to their help and supplement their collections by further grants. Besides, when any village is organised into a Panchayet, taxation assumes an obligatory aspect, for the knowledge that a neighbouring Panchayet has imposed no taxation acts as a deterrent for the levy of taxes irrespective of the benefits that might ultimately flow from the expenditure of the tax funds.<sup>7</sup> Compulsory taxation has achieved success in the Mysore State when the Panchayet Act came into operation only in February, 1927, e.g., all the 1,405 villages in the Bangalore district and a majority of the villages in the remaining districts took action to levy the obligatory taxes. The principle of legislative determination of subjects of local taxation is one familiar to European countries. To prevent local parsimony and to achieve and maintain an effective and uniform service in matters of general interest it is the common practice to declare certain charges as "obligatory," and to insist on their being incurred by the superior authority. The determination of a maximum, e.g., Rs. 10 per house in Mysore and Rs. 20 per house

<sup>6</sup> Report of the Bombay Committee on the Working of the Panchayets, page 3,

<sup>7</sup> Mysore Legislative Council Debates, Sept., 1925, pp. 227—247,

in Bombay, is also a well-worn principle of local finance and one almost universally adopted on the Continent for the control of local taxation. Just as to check parsimony the legislature compels the local authority to levy certain taxes, so also to check any possible extravagance, it lays down a maximum amount for certain kinds of local taxation beyond which the local authority may not go.<sup>8</sup>

A subject that has evoked considerable controversy is the power given to higher authorities to impose additional taxation whenever they think that the regular income of the local authority falls below what is necessary for the proper discharge of obligatory duties. The advocates of complete autonomy see in this measure an attempt to hamper the discretion of the Panchayets and restrict their freedom. They are not aware that an important principle of local administration is involved in it. A National Minimum of adequacy and efficiency in local services is indispensable in the national interest. Society as a whole cannot afford to let the inhabitants of Little Padhalli or Little Pedlington to suffer from the consequences of their parsimony, such as small-pox, cholera and plague, because those consequences spread over the neighbouring villages, affect everyone who has intercourse with them and may even threaten the welfare of the community as a whole. Complete local autonomy may not be compatible with national well-being and may not secure for every village and commune the National Minimum. Hence the Central Government is forced to interfere whenever it thinks that the local authority does not raise funds enough to finance the duties which are imposed upon it. A recognised method of the interference in Continental Europe is the compulsory submission of the annual budget to higher authorities and the budget becomes executory only after approval by the supervisory authority which makes sure that proper provision is made for obligatory expenditure. Similarly in the English Education Act of 1870 power was reserved to

<sup>8</sup> Grice, *National and Local Finance*, pp. 119 and 120.



increase the rates whenever a local authority did not raise sufficient funds for the education of the children in its charge. The local unit is protected from the arbitrary exercise of the power to interfere by means of various provisions. Thus the Deputy Commissioner in the case of Mysore and the District Board in the case of Bombay, though they may call upon the Panchayets to take steps within six months to increase its income to such a figure as it considers necessary, can in no circumstances require the house-tax to be increased beyond the maximum rate prescribed by the Government. Further, any Panchayet may appeal to Government against the enhancement of its income and no action shall be taken to effect such enhancement until the appeal has been decided.<sup>9</sup>

The Panchayet Acts of Madras and Mysore allow the village authorities to impose specific taxes for specific purposes. The Mysore Act stipulates that a Panchayet apart from the obligatory tax may also levy with the previous sanction of the Government any tax, rate or fee for the discharge of any of the duties imposed upon it. The Mysore Scheme is still in its infancy, having come into force from 1st February, 1927. The Panchayets, therefore, have not had time to examine or tap the various resources open to them. In Madras, on the other hand, the Report of the Registrar-General of 1927-1928 testifies to the activity of Panchayets in the levy of special taxes for particular purposes. Thus 71 Panchayets levy taxes for financing the removal of prickly pear. The work of constructing, repairing and improving the village communications has been financed out of general resources in some cases and by means of special taxes in others. Taxes for financing the construction of school buildings were sanctioned in 29 cases. When the clearance and removal of silt from the beds of tanks entailed heavy cost, special taxes were levied for it. Similarly the Kudimaramat obligation has been enforced by means of a tax in money or in kind at so much per acre, with the

<sup>9</sup> *Vide Mysore Legislative Council Debates, February, 1926, pages 268—278.*

proviso added that, if labour is supplied of such quantity and at such time as the Panchayet may require, the tax shall not be collected. Several Panchayets have employed Niranikkams or Nirgantias for regulating the distribution of water from the tank and remunerated them either out of taxes specially levied for the purpose or by means of Meras at harvest time according to custom. A review of the existing taxes by the Panchayets whether for general or specific purposes shows that the tax scheme of the village bodies is fairly comprehensive and covers a wide range of subjects. The taxes so far imposed in the provinces have been thus classified in the Report of the Indian Taxation Enquiry Committee:—

“(a) A house-tax based on—

- (1) capital value,
- (2) nature of structure (terraced, tiled or thatched),
- (3) linear dimensions, and
- (4) annual rental value.

(b) Taxes on professions based on—

- (1) class of business, such as money-lenders, petty traders, tanners, renters of toddy shops;
- (2) the income of the individuals; and
- (3) the value or quantity of articles sold in the case of tradesmen, as, for instance, a charge on each gallon of liquor sold, or per cart-load of rice or paddy sold by the grain merchant.

(c) Fees for the occupation of cattle-stands, threshing-floor, village-sites, cart-stands, markets, market-sites, slaughter-houses, choultries, chattrams, travellers' rest-houses.

- (d) License fees on tea-houses, coffee shops, refreshment rooms, brick kilns, oil mills, hides or skin depots, and travelling shows.
- (e) Fees which are in the nature of an octroi or import duty, as, for instance, small charges on grain exported or articles imported into the village, the unit of assessment usually being a cart-load.
- (f) A light poll-tax for general or specific purposes and sometimes graduated according to the income of the family as, for instance, a tax per family per month to meet the cost of watching the drinking water tank.
- (g) A tax on land on acreage basis for specific purposes, such as clearing channels.
- (h) Special fees for each house for specific purposes, such as scavenging."

The list is certainly formidable and is calculated to impress one with the possible range of Panchayet taxation. What is really important is not the number of taxes or the number of sources which can be tapped by the village authorities but the yield of the taxes and the productivity of the sources of revenue. Judged by this criterion Panchayet finance, in the main, is in an unsatisfactory condition. The annual reports of the working of the Panchayets lay stress on the fact that the resources of the village bodies are inadequate for the services which they have to perform. Water-supply, sanitation, communications, medical relief and education constitute the irreducible minimum of the duties and responsibilities of any village authorities, while the finances that they can raise through taxes and fees, licenses and fines, along with its communal income and communal labour, fall short of their budgetary requirements. The example of Mysore

will serve to illustrate the inadequacy of village finance.<sup>10</sup> The prevailing type of village in the Mysore State consists of about 200 inhabitants living in 40 to 50 houses. The revenue of the village will be made up of the house-tax, the tax on carts, the tax on shops, hittals and vacant sites, all of which are compulsory levies. A Panchayet may also levy additional taxes, receive grants from the District Board and Government and mobilise village labour for communal work. The actual collection however is not likely to exceed Rs. 300. For very few houses will be worth more than Rs. 200 and therefore the bulk of the houses will pay at the rate of about Rs. 2 each, though the rates vary from Rs. 8 to Rs. 10. Very few carts would be liable to pay the tax because it cannot be levied on carts belonging to persons whose sole occupation is agriculture. The tax on shops, hittal and vacant sites will not make any material contribution to the Panchayet fund. The Government grant of Rs. 1.30 lakhs for rural reconstruction and Rs. .50 lakh for drinking-water wells in 1927 hardly makes any impression on the 16,650 villages of the State. The yield from all these sources may be estimated at Rs. 300.

On the side of expenditure account must be taken of the minimum services that the Panchayet has to provide, viz., roads, wells, sanitation, lighting and medical relief. The cost of maintaining the roads may be put at Rs. 55. The wells will include an outlay of Rs. 35 a year, required to meet the capital cost and depreciation charges. The sanitary arrangements which include the provision of drains and the wages of a sweeper will absorb Rs. 140 a year. Lighting would cost Rs. 90. Medical relief would require Rs. 130. Thus the total expenditure comes to about Rs. 450, leaving a deficit of Rs. 150 annually for every village. The figures are not intended to convey the impression that the Panchayet budgets do not balance. They only show that a Panchayet which wishes to carry out the minimum functions that are required of it has not got sufficient resources at its disposal.

<sup>10</sup> For a detailed estimate of the revenue and expenditure of a typical Panchayet, *vide* Report on Taxation in Mysore, pages 140, 141, 142.

#### 4. SUGGESTIONS FOR IMPROVEMENT OF PANCHAYET REVENUE

Several suggestions have been made to fill the gap between income and expenditure and generally to add to the resources of the Panchayets, *e.g.*, division of the proceeds of land revenue, local taxation of land, utilisation of the land-cess by the Panchayet, conservation of communal income, mobilisation of communal labour, assignment of certain heads of central revenue and grants-in-aid of local expenditure. The fiscal value of these suggestions may be assessed and their financial implications examined.

Resolutions have been passed at various Panchayet Conferences of the Madras Presidency that a portion of land revenue, say, ~~one~~ or two annas, should be set aside for the use of the Panchayets. They have evoked little response from the Provincial Government. The proposal would mean payment to the villages of 40 to 80 lakhs out of the land revenue collections. In the present state of the finances it is practically impossible to earmark such a large sum for undecided purposes. Moreover, villages with a large land revenue and a small population would get more than they really require for the discharge of all their administrative responsibilities, while the poorer villages with a denser population would be condemned to practical inactivity. The distribution therefore of the proceeds of the land revenue among the villages would be unequal, the richer villages getting more and the poorer villages getting less. The proposal represents no improvement over the existing arrangements whereby the Panchayets which are prepared to help themselves receive grants-in-aid of their expenditure on communications, water-supply and education. Moreover, the suggestion to make over a part of the proceeds of land revenue is open to the general objections against the method of division of proceeds of any head of revenue between central and subordinate authorities. There is no guarantee that the share of the local body will be wisely spent. The Central Government can exercise

no check over the expenditure of the moneys allotted to the subordinate bodies. Further, sharing of the proceeds may lead to unequal distribution of the revenue, for the capacity of the district to contribute, and not the need of the district to spend, will determine its share of the proceeds.

It is also suggested that the land-revenue should be made entirely a local charge instead of being a provincial receipt. There is a tendency all over the civilized world to make over the land-revenue or the land-tax to local bodies. In Austria the land-tax has become entirely a local tax. In Prussia the tax on land for local purposes is twice the tax levied for central purposes. In England the principal tax on land is the local rate. The argument that taxation of real estate should be localised is based on sound principle, because the fruits of local finance accrue primarily to the area from which the revenue is drawn, and the tax-payer thus gets a measurable return for the public burdens that he is called upon to bear. The Todhunter Committee have recommended that, in conformity with the now familiar and established principle that real property forms the chief support of local finance, the land assessment for provincial purposes should be standardised at a level lower than the existing rates, viz., 25 per cent of the annual value. In the opinion of the Committee, the further taxation of land should be by local bodies for local purposes. The Committee suggest a maximum for the ordinary rates of about 25 per cent of the sum taken as land revenue. There would be of course no objection to the imposition of additional special and temporary rate for specific local purposes.<sup>11</sup>

A suggestion is frequently made at Panchayet Conferences that local cesses being locally levied should be utilised by the smallest unit of the administration. The practice of levying cesses or surcharges on the land revenue is of very long standing in India. At one time they were levied principally for imperial purposes, *e.g.*, the famine fund or for provincial purposes, *e.g.*,

<sup>11</sup> *Vide* Report of the Indian Taxation Enquiry Committee, pp. 87-88,

payment of village offices. In recent years there has been a transference of the funds to regional bodies and also a tendency to add specific cesses to specific purposes like the railway cess and the education cess. In Mysore the resources of District Boards are greatly augmented by the levy of such cesses. They get an assigned share, 75 per cent, of the land cess, other cesses that must be imposed like the education cess and may be imposed like the railway cess and the special cess. The Village Panchayets hard put to it to find moneys for their expenditure, have been demanding a share of the cess collections which now go almost entirely to the District Boards. This demand is not likely to be granted, for the District Boards which are themselves in straitened circumstances are loth to part with any fraction of their revenues. However, in any redistribution of the resources between the Provincial Authority, District Board and Village Panchayets a special provision may be made for the utilisation of the local cess for the local purposes. The levy of an additional impost on a central head of revenue to replenish the coffers of subsidiary organs of Government is well-grounded in principle. It has become a common feature of local finance in European countries. Thus, in France, the departments obtain over one-half of their ordinary revenues, and the communes obtain over one-fourth of their ordinary receipts by the simple process of adding hundreds, centimes, to the amount of the principal tax which goes to the central authority. Similarly the *zuschlage* of the Prussian commune is simply a surtax on the State income-tax. But the scope of the *zuschlage* is much wider than that of the State income-tax, because the latter includes only incomes over 900 Marks but the communes may subject to their additional percentages all incomes commencing from 420 Marks.

The Registrars of Panchayets in the Annual Report lay stress on the importance of the communal income which has to be garnered from all the sources available by custom or concession in the village. Cattle-dropping in public places, velal grass in tank beds, the right to gather babul pods or the leavings in the groundnut fields, the privilege of grazing ducks on harvested fields,

fisheries and silt in drinking water ponds—these and similar items may be sold in auction and the proceeds appropriated to Panchayet funds. The Panchayets, as in the Tanjore area, may also administer on behalf of the village community the Samudhyana Lands which yield a considerable income. The communal resources and the property of the village should be organized most efficiently, and every species of the communal income carefully garnered, so that it may go to augment the Panchayet-Fund. The suggestion is of practical value as in the village economy there are several items of income which perhaps individually will not amount to an accession of the village revenue but collectively will tell upon the Panchayet finances.

Communal labour is a species of intangible revenue which has considerable possibilities of expansion. As a matter of fact communal labour figures fairly largely in the budget of village bodies. The inhabitants of a village realize that they are members one of another and that the interests of the village as a whole are bound up with their own individual interests. Out of 8,863 Village Panchayets in Mysore, as many as 3,000 Panchayets contribute weekly labour for works of communal benefit such as clearing of lantana and prickly pear, filling up of insanitary pits and cess-pools, construction and improvement of village communication, planting of topes and trees. Many Panchayets of Madras villages mobilize village labour for the clearance of prickly pear and for the management of tanks. The value of this work done by labour organized for Kudimaramat for irrigation purposes was considerable though it is not possible to estimate it with any degree of accuracy. There is nothing which has helped the Panchayets to find favour in irrigated tracts so much as the discharge by them in an efficient manner of the customary irrigation obligations of the cultivators. Mobilisation of communal labour which is part of the general plan of reviving on modern lines and with modern sanctions the organized life of the old South Indian Village as an agricultural community is of considerable fiscal



importance. To some extent it obviates the need to levy taxes on the villagers who have neither the willingness nor the capacity to contribute liberally to the Panchayet fund.<sup>12</sup>

It is suggested in some quarters that the village finance may be considerably improved by the transference of items of Board Income and Government Income. The Madras Panchayets may thus be endowed with the profession tax, licence fees, income from trees, fisheries, cart-stands, markets, slaughterhouses and ferries by the local boards, while the Government may endow them with revenue from communal Porambores and the sale of grass and tree produce on D.P.W. canals and fines levied by magistrates and village courts. An assignment of revenues is one of the recognized methods of central aid to local bodies, the others being division of the proceeds of a particular tax and grant-in-aid of local expenditure. Such an assignment is rendered necessary by the devolution of functions from the higher to the lower that is taking place in the administration of the country. The Panchayets are charged with functions which were performed by the district or provincial authorities. It is but natural that a transference of revenue should proceed *pari passu* with the transference of responsibilities. In Mysore the Mohatarfa, that is, a tax on houses, shops, or places of trade or business, vacant sites, hittals and carts in the village which was originally a central head of revenue is now transferred from the District Board to the Panchayets. It must, however, be borne in mind that, the assignment of revenue under all circumstances is not an unmixed blessing and that a better alternative in most cases would be the system of grants-in-aid. The local authorities have to depend upon subventions from the Exchequer and one has to consider whether the subvention should take the form of a grant or an assigned revenue. The allocation of specific sources of revenue to the local authorities or dedication to their use of the proceeds of particular taxes deprives the community as a whole of a part of its resources and

<sup>12</sup> Vide Report on the Working of Panchayets, Madras, 1925-26, Section '86.'

deprives the Government of the practical means of enforcing upon the local bodies the minimum of efficiency required by the community. To the local authority, the proceeds of assigned revenues become its own property which it may spend as wisely or wastefully as it pleases. In other words, assigned revenues do not possess that check on local extravagance and local laxity that is provided by a system of grants-in-aid. Moreover, the transference of items of central revenues to local bodies may result in actual inequality as between different districts or villages. The distribution of the revenue would be, not according to the needs of a locality but according to its capacity to contribute to the particular heads of assigned revenue. Accordingly, the suggestion made in the Mysore Legislative Council that the price of vacant lands, Hulbanni and Amarai should be made over to the Panchayets was not approved on the ground that with the increasing occupancy of land they become a decreasing source of revenue, that the yield at any particular time is not in proportion to the size of the village, that the revenues from some of these sources, e.g., Amarai fluctuates with seasonal conditions and that the bulk of the proceeds comes only from one or two districts.<sup>13</sup>

## 5. GRANTS-IN-AID OF PANCHAYET EXPENDITURE

Of all the suggestions, the one that is likely to find widest acceptance is that of Grant-in-aid which has now become an instrument of extraordinary potency. After an examination of the Panchayet finances the Report on Taxation in Mysore says, "The drift of the discussion has been to make out a case for State subvention to these local bodies, though the strength of the case for such subvention and the condition of grant will naturally vary from one group to another."<sup>14</sup> The Grant-in-aid is a device peculiar to the English administration and its achievements in the country

<sup>13</sup> Vide Mysore Legislative Council Debates, February, 1926, pages 260 and 268.

<sup>14</sup> Vide Report on Taxation in Mysore, page 143.

of its origin have demonstrated its vast possibilities for India. It started as a mere financial adjustment and soon became a pivot on which the whole machinery of local administration in England is based. On the Continent it is displacing the two methods by which central assistance is given to subordinate bodies, viz., assignment of certain heads of revenue and division of the proceeds of a given head of revenue. Whether a particular act of the legislature really functions or becomes a mere dead letter, whether any new branch of Local Government stagnates or becomes an active agency for accomplishing the object for which it was established, depends to a very great extent upon how it is connected with Grants-in-aid and the conditions under which those grants are administered.

Says Sydney Webb:—"By a 'Grant-in-aid' the English administrator understands a subvention payable from the exchequer of the United Kingdom to a Local Governing Authority, in order to assist that authority in execution of some or all of its statutory duties. The subvention may be an isolated payment, but is usually recurrent or annual. It may be a matter of statutory obligation or dependent on the recurring decision of the minister in charge of a particular department. It may be unconditionally of fixed amount, or variable according to the circumstances of the time. Most important of all, its variable amount may be dependent on the growth of population, or of a particular section of it, on the amount of some particular service, on the number of officers appointed, or the sum of their salaries, on the expenditure of the receiving authority, on the rateable value of its district, on the efficiency of its work, or on some other condition. And according to the condition and stipulations that are attached to the Grant-in-aid, so will be, whether or not we like it or foresee it, its effect on public administration."

The principles on which Grants-in-aid of local expenditures should be distributed have been obscured by the distinction that is sometimes attempted to be drawn between the onerous and beneficial or obligatory and optional services of a local authority, that is, services which are preponderantly national in character and

therefore generally onerous to the inhabitants of the area in question, and services which are preponderantly local in character and confer upon the inhabitants of the area a direct benefit more or less commensurate with the burden. It is contended that only those services administered by the local authority which are of national importance are entitled to grants from the National Exchequer, while those services undertaken by the local authorities, the direct personal benefit of which can be strictly individualised and measured, should be paid for in their entirety by the inhabitants in proportion to the benefit received. The truth is, the distinction cannot be made on any strictly logical principle and the classification under either head would vary considerably from country to country or from time to time. There is hardly any local service locally administered whose benefit accrues exclusively to the local area: it will be of some concern to the community as a whole. Similarly there is no national service locally administered, which is not also of some benefit to the inhabitants of the area. Hence there should be no rigid exclusion of Grants from all the services which are admitted to be 'local,' 'beneficial' or 'optional,' nor should the whole cost of those services considered to be 'national,' 'onerous' or 'obligatory' be borne entirely by the Central Government. Sydney Webb's dictum on this subject may be accepted. "The Grants must be made, not for services arbitrarily styled national, but in aid of certain definitely selected services in which the real objects of Grants-in-aid can be most conveniently attained, or in the efficiency of which the community as a whole has considerable interest."<sup>15</sup>

Grants-in-aid are necessary as well as desirable on four grounds. In the first place they are the means to prevent an extreme inequality of burden between one area and another. The cost of governing a hundred thousand persons in a poor district must be several times as great as the cost of governing a hundred thousand persons in a rich district. The cost will vary with the

<sup>15</sup> Vide Sydney Webb, Grants-in-Aid, page 91.

ratio of children to adults, the amount of sickness, the extent of the traffic, the condition of the housing, and generally with the poverty of the inhabitants. Therefore to provide the same amenities of civilized life, some areas will have to incur a rate in the pound or raise a sum by taxation many times as great as the others. In other words the cost of the services will be in inverse proportion to the capacity of the areas to bear it. Therefore to minimise the inequality in the common burden of taxation grants may be distributed from the Central Exchequer.

The second reason for Grants-in-aid is that, they furnish a method by which the expert knowledge, the superior wisdom and the centralized experience of the National Government may be brought to bear on the local authorities which are apt to suffer from a parochial view of their responsibilities or manipulation of their parties. The Grants-in-aid furnish a lever for improving local administration and guiding the expenditure of the local authorities in directions which in the interests of the nation as a whole may be considered desirable. As it often happens there are some methods of action and some lines of policy which are better than others, and the local authority may be induced to reject the worse and adopt the better alternative by a Grant attached to the course which in the judgment of the community is of the greatest advantage.

The third reason for a system of Grants-in-aid is that it is the most efficient weapon to enforce on all subordinate authorities the National Minimum of efficiency and adequacy in the supply of services which may be prescribed in the national interest. The claim of each locality to do what it likes cannot be sustained. For the community as a whole may suffer from the consequences of its parsimony. Neglect to take preventive measures may result in an outbreak of epidemics in the locality which may spread to the neighbouring regions and threaten the life of the nation. The administration of a village or of a town is thus not merely a local concern but is also of some concern to the community as a whole. Hence the necessity to force up local

taxation to the level prescribed by the national minimum. If however the village or the commune is so poor that it cannot finance the essential services, then a strong case is made out for a Grant-in-aid from the central funds. The practical outcome is that especially in a country like India where the local authorities have very limited resources and very considerable responsibilities, the minimum indispensably required by the common weal cannot be enforced without a Grant-in-aid.

The fourth reason and by far the most important reason for a system of Grant-in-aid is that it provides a method by which a Central Authority can secure uniformity, efficiency and economy in the working of the local administration. In theory the Government can force a disobedient local body to do what the statute requires of it by means of a Mandamus as in the United Kingdom or by means of an action in the Administrative Court as on the Continent of Europe. Such steps however, result in cumbrous legal processes and involve what might appear to be a needless interference with the autonomy of the local bodies but a Central Authority that wields the weapon of well-devised Grant-in-aid is in a position to command and to call to order the recalcitrant local authority. A mere threat that, unless such and such defects and drawbacks were set right before a stipulated time, the Grant might be withheld, has usually sufficed to induce the local authority in England to take steps to raise the necessary taxation and to effect the necessary improvements.

The application of the method of the Grant-in-aid so as to secure uniformity, efficiency and economy in local administration has given rise to a code of rules, the importance of which cannot be sufficiently emphasized. Grants should be conditional on the efficiency of the service. Fixed lump-sum grants lead to local extravagance and local waste while variable grants serve as a spur to economy and efficiency. The Treasury favours invariable grants because such a system fixes the limits to the claims made upon it and it saves the Treasury the trouble of calculation and adjustment involved in a system of variable grants. In Madras

the Government has authorised Collectors to make grants to Panchayets for a library up to Rs. 200 irrespective of any contribution from the Panchayets themselves. Similarly in the same province an annual grant of Rs. 180 per teacher is made to the Panchayets without making it conditional upon a like contribution from them. The Grant is substantial to meet the salary of the ordinary village teacher and the Panchayets could not be prevailed upon to contribute from their funds so as to obtain the services of trained and efficient teachers.<sup>16</sup> Further no grant should be payable unless the Supervising Authority certifies that the service is being administered in accordance with the statutory regulations and that the service in point of sufficiency of supply and standard of efficiency reaches what may be considered the National Minimum. Although the Grant should be a variable one, it should not be made to vary merely with the population or rateable value, or at so much per pupil or per school or at so much per patient or per hospital irrespective of such considerations as equalization of local burdens and the special circumstances of special localities. Moreover, the Grant should be made in aid of especially selected services and not in aid of the total expenditure incurred by the local authorities to discharge all the duties imposed upon them by statute. Only those Grants achieve their objects which are in the nature of proportional subventions towards the cost of specific services. In the Indian village there are four main services which stand out as suitable subjects for Grants-in-aid. These are water-supply, education, public health and communications.

Subsidies and subventions are not unknown in the local finance of India. In the Madras Presidency between the years 1916—23 out of a total revenue of 118 crores, a sum of 7½ crores was distributed as Grants-in-aid and in the budget of 1923-24 a grant of 1.41 crores out of a revenue of 16.87 crores was provided for. In Bombay the local authorities (excluding municipal-

<sup>16</sup> Vide The Madras Panchayet Bulletin, May, 1928, page 24.

ities) received in 1913-14 a sum of 34 lakhs from Government while their total revenue was only 80 lakhs. In Mysore "Grants to Local Bodies" forms one of the budget heads. From 1910-28 these grants amounted to 81 lakhs which gives an average of 4.5 lakhs per annum. These subventions from the Government are not so infinitesimal as they might appear at first sight, for in Mysore primary education and medical relief are central heads, only a part of the expenditure being met by Municipalities and District Boards. The yearly average of grants for the Mysore villages, 16,650 in number, for the period 1910-1927 works out at Rs. 29 lakh for Village Improvements and Rural Reconstruction and Rs. 36 lakh for Drinking-water Wells in villages. The Budget figures for 1926-27 are: Village Improvements and Rural Reconstruction—Rs. 1.30 lakhs, Drinking-water Wells in villages Rs. 50 lakh which distributed among 16,650 villages of Mysore will give Rs. 10 per village. The Indian figures may be compared with the English figures: the receipts of local authorities from Government Grants in the year 1926-27 were approximately £ 87,000,000 while the total of rates collected was £ 159,000,000. According to the proposals submitted to Parliament by the Chancellor of the Exchequer for reform in Local Government and in the financial relations between the Exchequer and the local authorities, the relation between grants and the rates would be—Grants £ 111,000,000 and rates £ 135,500,000. The disparity in the figures drives one to the conclusion that the system of Grants-in-aid may be utilized more and more to supplement the resources and increase the efficiency of the local bodies in India, bearing in mind the various rules and provisions which render the system the most powerful device by which the Central Government assists, educates and encourages the local authorities.

For the actual distribution of grants a formula will have to be worked out on lines similar to those suggested by the Royal Commission on Local Taxation in England and Wales and actually put into precise Parliamentary terms in "Grants to the Local Health Authorities." Broadly speaking, any scheme for the distribution



of grants should take into account two things; viz., first, the total minimum expenditure for the local authority—this is obtained by multiplying the minimum rate of expenditure per head of people fixed in the interests of national welfare and efficiency by the number of inhabitants of the area in question; secondly, total maximum revenue that the local authority can raise from the resources at its disposal. If the minimum expenditure exceeds the maximum revenue, then a grant to cover the difference should be given by the National Exchequer. It often happens that the local authority incurs expenditure over and above the minimum prescribed in order to raise its standard of well-being. Towards this excess the Central Government should contribute a certain proportion, the actual amount being determined by the exigencies of the National Exchequer on the one hand and the social value of the functions undertaken by the local authority on the other. The formula need not be put into precise mathematical language. It may be varied to suit particular circumstances or unexpected developments.

---

# DIVISION OF FUNCTIONS AND DIVISION OF RESOURCES IN INDIA

BY

R. M. JOSHI,

*Sydenham College of Commerce and Economics, Bombay.*

## SUMMARY

The financial position at the time of the Montagu-Chelmsford Report. Brief survey since 1858. The position in 1918. The proposals in the Report for the abolition of 'divided heads.' The method adopted.

Popular criticism of the financial policy during the preceding sixty years. Failure of the Report to take note of the same. The consequent weakness of the financial arrangements proposed for the Provinces.

The working of the Reforms. Realisation of the financial difficulties.

The Indian Taxation Enquiry Committee's Report. Review of the principles and practice of federal finance. Division of functions and division of resources. The effect of the Montford Report on the Taxation Committee's proposals.

What line the Montford Report could have adopted as theoretically sound and workable in practice? How it can be done now?

---

In the Montagu-Chelmsford Report on Indian Constitutional Reforms, a masterly survey has been taken of the financial aspect of the Constitution as it stood in 1918. As the Report puts it, "the Government of India's control over revenues and expenditure is derived from the Acts of 1853 and 1858, which treated the revenues of India as one and applied them to the purposes of the

Government of India as a whole." Prior to 1871, both revenue and expenditure were completely centralised. Then under Lord Mayo's Government, "each Local Government was given a fixed grant for the upkeep of definite services, such as police, jails, education and the medical services, with power, subject to certain conditions, to allocate it as seemed best, and also to provide for additional expenditure by the exercise of economy and, if necessary, by raising local taxes." This arrangement continued till 1882. In Lord Lytton's time, the control of the expenditure upon all the ordinary provincial services was delegated to Local Governments, and in place of the fixed grants previously given, the whole or part of certain heads of revenue were handed over to them. The main heads were—forests, excise, license-tax (now income-tax) and stamps. But "as the revenue from these heads was not ordinarily sufficient for provincial requirements, it was supplemented by a percentage of the important head of land revenue, which otherwise remained an all-India receipt." Settlements had always been based, not on the revenues raised within from 1882 to 1904. Thus arose the system of 'divided heads.' Under Lord Curzon's Government, these standing quinquennial controversies were ended and quasi-permanent settlements were made, under which, as a general rule, one-half of the revenues under the five heads—Land Revenue, Stamps, Excise, Income-tax and Forests—was given to the provinces. Lord Hardinge's Government made the settlements permanent in 1912. The Government of India, of course, retained the option of distributing among the provinces special grants, both recurring and non-recurring, out of the surplus, if any, at their disposal. These settlements on these lines were made with the provinces quinquennially each province, but on what the Government of India regarded as the provincial needs. The Central Government always was in a position to control provincial expenditure; "indeed, in view of their own competing needs, they could hardly avoid feeling a direct interest in keeping down provincial charges. Again, as regards revenues, so long as the Government of India take a share

in the proceeds, they have a strong motive for interfering in details of administration." But if the principle of popular control was to be admitted into the Government through the medium of the legislative councils, this arrangement must be changed. "An arrangement, which has on the whole worked successfully between two official Governments, would be quite impossible between a popular and an official Government. Our first aim has, therefore, been to find some means of entirely separating the resources of the Central and Provincial Governments."

The method adopted by the authors of the Report to achieve this aim was, in their own words, as follows:—"Our idea is that an estimate should first be made of the scale of expenditure required for the upkeep and development of the services which clearly appertain to the Indian sphere; that resources with which to meet this expenditure should be secured to the Indian Government; and that all other revenues should then be handed over to the provincial Governments, which will thenceforth be held wholly responsible for the development of all provincial services."

This 'idea' is obviously wholly one-sided. It shows great anxiety for 'the upkeep and development of the services which clearly appertain to the Indian sphere,' but none whatever for those belonging to the Provincial sphere, though Provincial Governments were thenceforth to be held 'wholly responsible' for their 'development.' Up till now, the responsibility for all services lay with the Indian Government. The manner in which that responsibility had been discharged during the preceding sixty years had been criticised with increasing severity by popular opinion during the last forty years. That criticism had definitely been crystallised, with the passage of time, round certain points, *e.g.*, (1) that since the eighties, the military expenditure of the country had been growing excessively; (2) that services really catering for the moral and material welfare of the people, *e.g.*, education, sanitation, medical relief, veterinary, rural roads, tanks and wells, agriculture, development of subsidiary and organised modern industries, had in consequence been very meagre-

ly provided for; (3) that after more than fifty years of enlightened Crown Government, the percentage of literacy recorded in the Census Report of 1911 was a miserable six; (4) that the vast mass of the people of the country were poor, very poor, and had a very low average expectation of life; (5) that revenue considerations were excessively dominant in the land revenue administration; (6) that the same considerations unduly governed the liquor excise policy of the Government and had caused an alarming growth of the liquor habit among a people whose religions sternly forbade them against it as a heinous sin; (7) that the Government resorted to heavy taxation of such a necessary article of daily life as common salt.

Such was the popular criticism of the manner in which the centralised government of the country had discharged its responsibility during sixty years. In fact, it was the irresistible strength of such criticism which had led to this Report on Constitutional Reforms. When, therefore, it was proposed to relieve the Central Government of responsibility for most of the functions vitally related to the moral and material welfare of the people, was it not necessary to 'secure' to the Provincial Governments resources adequate for 'the upkeep and development' of services, alleged to have hitherto been woefully neglected, for which they were henceforth to be held 'wholly responsible'? In other words, must not the division of resources be in right proportion to the division of functions? The authors of the Report did not even ask themselves this question. How then could their proposals be found to answer it satisfactorily?

They talk about making an 'estimate' of the expenditure required for the services pertaining to the Central Government. Provincial services they have not thought worth mentioning, but the Central services they have specified pretty fully. Of the latter, however, the items for serious consideration, from the point of view of financial provision, were only two, *viz.*, defence and service of unproductive debt. Of the rest, the commercial departments more than paid their way; in administering Coorg and

other tracts, the Central Government would have the same resources as were to be allotted to the Provinces; extra expenditure on strategic areas ought to be included under defence; and the remaining items were comparatively minor ones. The authors of the Report do not seem to have made any 'estimate' of legitimate expenditure on defence, especially in view of the persistent, generation old, popular criticism of that item. They seem to have contented themselves with taking the figures of actual expenditure and assuming that the latter would of course grow year by year.

On that basis, the authors proceeded to examine what resources must be retained wholly by the Central Government in order that it might feel 'secure' as regards upkeep and 'development' of the items (really only one item, *viz.*, defence) under its charge. In the couple of pages devoted in the Report to the discussion of how to achieve complete separation of resources as between the Central and Provincial Governments, there is no evidence whatever of any consideration of the principles of federal finance or of the actual practice in countries like Germany, U.S.A., Canada and Australia, which indicated the lines on which the financial arrangements in India would have more or less to be modelled in future. Nor is there the slightest indication, as has already been pointed out, of any realisation of the grave possibility that the popularly controlled provincial legislatures, proposed to be set up in the Report, would immediately begin seriously to press the Provincial Governments, on the one hand, to move, even at the risk of loss of revenue, towards Prohibition and towards a more lenient land revenue administration, and, on the other hand, to make up the leeway in the hitherto sadly neglected services of education, sanitation, medical relief, rural public works, agriculture and industries. In an almost light-hearted manner, the authors of the Report concluded that customs, salt, opium, general stamps and income-tax should be wholly allotted to the Central Government, while land revenue, excise, judicial stamps, forests and irrigation should wholly become Provincial resources. Thus,

no heads of revenue would henceforth remain divided. With the sole modification of the transference of general stamps also to the Provinces, this became the financial framework with which Parliament equipped the Central and Provincial Governments of the new Reform era, under the Government of India Act of 1919 and the Rules made thereunder.

The working of the Reformed Constitution during the last eight years has shown the possibilities, above referred to, of popular opinion in the Provincial legislatures, to be actualities. With the exception of excise, the Provinces have found the expansiveness of the resources allotted to them to be very low, whereas their financial needs, for making up half a century's leeway in the nation-building departments, are almost insatiable; further, that in the matter of liquor excise, while they want to abolish the drink evil, the money from that tainted source has been made a vital part of their financial backbone. The agricultural provinces have not yet fully realised the situation, because of the adventitious addition to their spending power made by the new financial arrangements, and especially by the cessation of provincial contributions, which has latterly taken place. But it is merely a question of time for them to do so.

This is not a matter of being wise after the event. Even in 1918, a look at the financial statistics of British India for the preceding fifty years, particularly for those of the preceding twenty years, would have easily shown that the most expansive items on the revenue side of the Indian budget were customs, income-tax and liquor excise. The smallest acquaintance with public opinion among Indians made one aware of their feeling about excise, military expenditure and expenditure on nation-building departments. The theory and practice about federal finance were equally available for consultation in 1918, as they were in 1925 to the Indian Taxation Enquiry Committee. The latter Committee, however, did not have the power to do anything in the matter, which the authors of the Report of 1918 did possess.

The Taxation Enquiry Committee's Report describes the general tendencies relating to the division of resources under Federal Governments as follows:—

“(a) Indirect taxes, with the possible exception of stamp duties, are commonly regarded as suitable sources of Imperial taxation, for the reason that their exact incidence cannot be ascertained.

(b) Taxes on corporations are commonly Imperial because the operations of large companies often extend throughout the country, and adequate and uniform administrative supervision of such organisations is desirable.

(c) A personal or general income-tax is generally regarded as a source of State revenue.

(d) Taxes on property are seldom Imperial and tend to pass increasingly from State to Local.”

In (c) and (d), the Committee have not troubled themselves to give any reasons, and they need not have taken the trouble in (a) and (b) either.

In spite of their knowledge of these general tendencies in the practice of federal countries, and of their knowledge of the theory on the subject, as indicated by their references to Seligman, their treatment of the income-tax shows how biassed they were by the Montagu-Chelmsford Report.

While describing the tendencies relating to the division of functions under Federal Governments, the Taxation Enquiry Committee refer to the ‘functions relating to the moral and material welfare of the people’ as follows:—“Functions relating to the amelioration of the condition of the people include education, public health, the maintenance of roads and the encouragement of agriculture. These are functions in respect of which there has been a great expansion of activities in recent years all the world over. They are generally regarded as the appropriate functions of local bodies subject to the general control of the State,



but the expanding expenditure upon them has resulted in the grant of assistance in greater or less degree by State and even by Imperial Governments." The responsibility for these most expensive functions has, under the Reforms, been shifted to the local bodies; but their legitimate source of revenue, *viz.*, the land revenue, has not been allotted to them. They are quietly asked to raise their local cesses on the top of land revenue, and even Ministers of Local Self-Government sometimes join in rebuking local bodies for not raising the local cesses sufficiently. That is nothing less than adding insult to injury. The Taxation Enquiry Committee have not had the courage to recommend that land revenue should be regarded wholly as a local rate. Most of the bitter controversies on that subject would be ended, if that theoretically sound solution were adopted in practice. The Taxation Committee note in their report that "India differs from many Western countries in making excise duties Provincial," but again they have not the courage to recommend that excise should be made a Central resource and income-tax, or at any rate the tax on personal incomes, a wholly Provincial one. Instead, they content themselves by recommending the allotment to the Provinces of a small share of the personal income tax and of the corporation profits tax, thus unnecessarily re-creating a 'divided head.' The Taxation Committee also show a lack of courage in not recommending a tax on agricultural incomes, after making out a good case in favour of such a proposal.

Had the authors of the Montagu-Chelmsford Report made up their mind to give the Reforms as good a financial as a constitutional start in the Provinces, and also to meet public opinion on two of the most vital subjects, *viz.*, military expenditure and the drink evil, it would have been possible to abolish the 'divided heads' without creating the thorny problem of provincial contributions and the consequent inter-provincial jealousies, and without putting the Provinces on the horns of a dilemma through excise. The Central budget could have been made to balance without any contribution from the Provinces; no invidious in-

equalities as between the Provinces would have needed to be exposed; the Provinces could have been equipped with an expansive source of revenue; and they could have been started on the new era without either a diminished or an increased spending power. What would have happened would have been a mere redistribution of the existing resources on theoretically sound lines and in a manner permitting both the Central and Provincial Governments adequately to respond to public opinion in the formulation of their policy in the Reformed era. Such a re-distribution of resources would have been as follows:—

<i>Central.</i>	<i>Provincial.</i>
(1) Customs.	(1) Land Revenue.
(2) Excise.	(2) Tax on personal incomes including agricultural incomes.
(3) Salt.	(3) Stamps.
(4) Opium.	(4) Forests.
(5) Surplus in Railways and Posts and Telegraphs.	(5) Surplus in irrigation.
(6) Corporation profits tax.	

From the Provincial resources, land revenue would have been devolved further down to the local authorities.

That the Central budget would have started as balanced under these arrangements would be clear from the following figures for 1917-18 taken from the Statistics of British India, 1922, Vol. II:—

<i>Revenue.</i>	<i>(Rs. Crores).</i>	<i>Expenditure.</i>	<i>(Rs. Crores).</i>
Customs ...	16.5	Army ...	46.1
Excise ...	15.2	Unproductive debt service ...	10.9
Salt ...	8.2		
Opium ...	4.1		
Railways Surplus ...	14.8		
Posts Surplus ...	1.5		
Tax on Companies ...	...		
<b>Total ...</b>	<b>60.3</b>	<b>Total ...</b>	<b>57.0</b>

The progressive reduction in excise revenue in consequence of accepting a policy of progressive but expeditious abolition of the drink evil would have been met by an equally progressive and expeditious reduction of military expenditure.

Agricultural Provinces would of course have been compelled under these arrangements to tax agricultural incomes under the Tax on incomes of persons resident or domiciled within the Province. They would also have stood to benefit directly by stimulating the growth of organised modern industries through their own citizens. Help in this matter could also be legitimately claimed from the Central Government as the latter would stand to benefit through the Corporation Profits Tax (on the lines recommended by the Taxation Enquiry Committee).

All this could have been recommended in the Montagu-Chelmsford Report. Had that been done, the discontent created by the Reforms would probably not have been so great, in spite of the diarchical arrangements of the new constitution. But perhaps the weakest part of the Montagu-Chelmsford Report and of the Government of India Act and Rules based upon it was the financial part. Now, however, the time has come to rectify the mistakes then made, and it is essential to do so. With regard to expenditure on defence, for example, the following figures from the Indian Year Book and Statesman's Year Book are well worth noting:—

	1913-14	1927-28	Increase %	
India (Rs. Crores) ...	31'5	56'7	80	The rise of prices has been about the same in both countries.
Britain (£. M.) ...	74'5	115'1	55	

It would obviously be absurd to maintain that India's responsibilities in the matter of defence are now greater than those of Britain herself. People who talk about the need for re-considering the Meston award, do not seem to understand the fundamental issues involved in the problem. It is a question of properly adapting the division of resources to the division

of functions, Central, Provincial and Local. Sir John Simon showed that he had gone near the root of the matter when he said, in the course of the constitutional enquiry at Poona, that it was not the re-examination of the Meston award but of the relevant portions of the Montagu-Chelmsford Report that needed to be undertaken. That is a good augury for the future of constitutional reforms in this country. Let us hope that the Simon Commission will do what the Montagu-Chelmsford Report failed to do.

---

## SOME ASPECTS OF LOCAL FINANCE IN BRITISH INDIA

BY

B. G. BHATNAGAR,

*Allahabad University.*

As in the recent years the tendency of the Conference has been to favour short papers dealing with one or two aspects of a single problem, I have deliberately curtailed the scope of this paper. It deals with only two features of Local Finance and the study of those two features is confined to the six years after the introduction of the Montagu-Chelmsford Reforms in India, *i.e.*, 1921-22 to 1926-27.

So recently as the year 1924-25 this subject along with the taxation of other governing units received a fairly elaborate treatment at the hands of the Taxation Enquiry Committee, and yet there are some aspects in the finance of the local bodies that have not been even touched by that Committee. The Committee were called upon to enquire into the various items of taxation made use of by the various governing bodies and then to examine whether the taxes used "were equitable and in accordance with economic principles," and lastly "to report on the suitability of alternative sources of taxation." This shows that the Committee were pre-eminently a Taxation Committee and not a Finance Committee. Finance, as we all know, does not merely consist in securing an income from this tax or that, nor does it consist in the mere study of the various sources of income of a governing or public body

either individually or collectively but also in adjusting the resources to the end or ends in view. And it is precisely the latter aspect of Local Finance that I wish to emphasize before this Conference. It is one thing to earn and it is quite another thing to spend, *i.e.*, to spend wisely. In the case of our local bodies not only do we not find any ingenuity shown in the allocation of available funds to the various items of expenditure, but even the most elementary principles of finance are ignored. That this is so, will be made clear as we proceed.

TABLE A. MUNICIPALITIES

*Averages of 1931-22 to 1926-27*

Provinces.	Closing Balance of previous year.	Total Expenses chargeable to revenue.	Percentage of closing balance to expenses.
1. Assam ... ..	1,93,115	9,60,864	20
2. Bengal ... ..	19,53,635	68,67,130	28
3. Bihar and Orissa ...	9,17,443	33,27,855	27
4. U. P. ... ..	29,98,103	1,46,29,218	20
5. Punjab ... ..	46,18,232	1,30,68,731	35
6. N.-W. F. Province ...	11,36,170	17,83,631	64
7. C. P. ... ..	16,44,588	58,29,738	28
8. Bombay ... ..	94,78,683	2,00,31,409	47
9. Madras ... ..	29,88,654	1,14,17,846	26
10. Burma ... ..	24,61,798	63,06,067	39
11. Ajmer-Merwara...	1,28,993	5,17,216	25
12. Coorg ... ..	25,697	39,827	65

TABLE B. DISTRICT BOARDS

*Average of 1921-22 to 1926-27*

Provinces.	Closing Balance of last year.	Total Expenditure chargeable to Current Revenue.	Percentage relation of average closing balance to average total expenditure chargeable to Cur- rent Income.
1. Assam ... ..	8,38,947	31,38,439	20
2. Bengal ... ..	32,00,739	1,20,30,753	27
3. Bihar and Orissa ...	45,57,945	1,21,03,899	38
4. U. P. ... ..	...	..	..
5. Punjab ... ..	40,11,790	1,44,94,469	28
6. N.-W. F. Province ...	2,59,836	9,49,655	27
7. C. P. ... ..	19,65,181	65,28,936	31
8. Bombay ... ..	39,82,107	1,49,42,115	27
9. Madras ... ..	66,81,379	2,76,62,583	25
10. Burma ... ..	30,19,961	61,94,907	48
11. Ajmer-Merwara ...	32,169	90,657	35
12. Coorg ... ..	48,300	1,14,442	42

The first thing that strikes even a cursory onlooker in the figures of Income and Expenditure of these bodies is the huge figures of Closing Balances. In the Tables A and B are given the figures of closing balances averaged for the six years beginning from 1921-22 for municipalities and district boards respectively for each individual province, and there we can see that this is a characteristic of almost all the provinces in India. The lowest figure there is 20 per cent of the total expenditure during the year, and the highest is as high as 65 per cent. The place of a closing balance in the budget of a public body is to ensure availability of funds during early months of the coming financial year, and it is more so in the case of such public bodies as the local

boards in which expenditure on the recurring items of expenditure continues and either the income is expected to come in later, or is not expected to keep pace with the expenditure. As the chief source of income of the local boards is in the land cess and as this is realised with the land revenue which is realised in two half-yearly instalments, one some time in June and July, and the other in December-January, the local boards have a period of two or three months at the beginning of their financial year of comparatively weak incomings. But the expenditure during these months does not seem to be the guiding factor with local boards or municipalities in most of the provinces in deciding the figures of their closing balances. In all the provinces, the Provincial Acts empower the Local Governments to prescribe the minimum closing balances for these bodies. In some provinces such as the United Provinces, the Punjab and the Central Provinces, Local Governments have laid down definite sums of money as the necessary minimum balances. In others such as Bombay and Assam a certain percentage of the income is prescribed as the minimum necessary for closing balances. It is only in Bengal, Bihar and Orissa that it is laid down that "it should not be less than the total average charges for two months." This shows that most of our Provincial Governments are not quite alive to the principle that should underlie their policy of determining the closing balances for these local bodies. And even in those provinces where the correct principle is laid down, the local bodies concerned do not seem to follow it in practice. Thus in Bengal and Bihar and Orissa, the figures of closing balances should bear a relationship of 17 per cent to the total expenditure chargeable to current income, but it is 27 per cent and 38 per cent respectively in the case of local boards, and 28 per cent and 27 per cent respectively in the case of municipal boards.

Year after year the reviews of the various Provincial Governments on the working of these bodies, and the reports of the Examiners of Local Funds Accounts have been adversely commenting upon this, and yet no action is being taken. Sometimes, in



*justification*, it is urged that as the Government grants for the various items of expenditure are received late in the year, it becomes impossible to spend the whole of them and they go to swell up the closing balances. There is absolutely no doubt that this factor is responsible to a certain extent, and as in the statements of Income and Expenditure there is no system of showing such items separately we cannot say for how much such grants are responsible. But the broad fact remains that our local bodies are not quite alive to their responsibility in this matter, and our Provincial Governments would do well to lay down some such general principle as is adopted by the Governments of Bengal and Bihar and Orissa for the guidance of these local bodies in determining what their closing balances should be, and then to see at the time of audit that it was being followed instead of laying down a mere minimum which makes it possible for the local bodies to pile up their closing balances, and lose interest on the money that should have been profitably invested to earn interest for the taxpayer.

If there is one thing more than any other upon which all the Provincial Governments in their reviews of the working of local bodies agree, then it is that for want of funds the activities of the local bodies are being arrested. The reports of individual local bodies indicate that when they have mentioned this lack of funds with profuse regrets and added a sentence or two on the unsympathetic attitude of the Provincial Government in the matter of grants, they have done their duty. While the Provincial Governments feel satisfied when they have passed a stricture or two on the refusal of local bodies in general to tax themselves for securing larger funds so sorely needed. There is no indication either on the part of Provincial Governments or on the part of local bodies that the financial position of these bodies could be improved by a judicious use of the existing resources for their various needs. If these local bodies were quite keen and alive to their responsibilities in the matter of development in various directions, we could hardly have the phenomenon of excessive

closing balances. The fact is that none of them has a definite programme of development chalked out for itself, and none cares to regulate its finances on the broad principles of Public Finance. It is an elementary dictum of all public finance, whether Imperial, Provincial or Local, that expenses on items of expenditure that are of a non-recurring nature and that when finished yield a regular income either in services or in money for years to come, should as far as possible be met out of borrowed funds, and not out of the current revenue. The justification for this dictum is two-fold. Firstly, if there are some local undertakings such as the provision of clear water, electricity, or roads, for the use of which the local authority levy some sort of rate or fee and which are not intended to be supplied freely for a community, then it is but reasonable that the community should bear not only the initial cost, but also the interest charges on the capital expended in the first instance together with repair and depreciation charges. Secondly, there are some undertakings which the local authorities should and do undertake for the benefit of the people as a whole and from which they expect no regular income such as the buildings for hospitals and dispensaries for the poor, and free and compulsory education for the children of all. But these buildings when once constructed last for a time, and the results from better health and education become manifest in the shape of greater current income only in years to come, and therefore it stands to reason that the whole cost of their construction should not fall on the present generation. And the only way to make the future generations pay is to construct these out of borrowed funds, and then to pay them out of the current income in small instalments spread over a number of years. Instead of this what we find is that most of the capital expenditure is met out of the current revenue supplemented by Government grants. Thus out of 767 municipalities (exclusive of Presidency Municipalities) in India, only 164 are indebted. While out of 254 district boards only 83 are indebted. This means that in those municipalities and district boards which are not at all indebted all sorts of expenses whether

ordinary or capital are met from the general revenues and Government grants. While only in those municipalities which are indebted some recognition of the principle laid down may be expected. In none of the provinces except Madras is that data available which could give us an idea of how the total capital expenditure is met from different sources, such as *loans, grants, contributions, and current revenue*. In Madras, we find the condition of capital expenditure as explained below. In the case of district boards we find in 1925-26 that the total capital expenditure of 52.18 lakhs was met as follows:

12.5	lakhs from Service Receipts
4.88	„ „ Endowments and Contributions
9.00	„ „ Government Grants
and 20.34	„ „ General Revenues

While in the case of municipalities the total capital expenditure (1926-27) amounted to Rs. 44.88 lakhs, and was met as follows:

2.47	lakhs from Service Receipts
10.39	„ „ Endowments and Contributions
11.40	„ „ Government Grants
16.51	„ „ Loans
and 4.11	„ „ General Revenues

If the district boards and the municipalities instead of spending 20.34 lakhs, and 4.11 lakhs respectively from the general revenues on capital expenditure on items which are capable of yielding service receipts, were to spend these amounts as a basis of securing loans, they could have secured 339 lakhs for further development in district boards, while 68½ lakhs for development in municipalities, at 6 per cent per annum. This is but an isolated instance to show what these bodies could do if they were to carry out well-thought-out *development schemes* through borrowed funds, and meet the charges for sinking fund and interest from the service receipts and the general revenues.

It is needless for me to recall that in our towns as well as in the rural areas there is yet vast room for development schemes of water-supply, communications, drainage and so forth, and that it is impossible to provide money for all these to any appreciable extent from the general revenues or from the Government grants, and that unless borrowing on scientific lines is resorted to, the problem of development must remain unsolved. That in most of the provinces there exists a margin of general revenues in the case of district boards is evident from the figures in column 3, Table D. The same is true of municipalities in Assam, Bengal, Bihar and Orissa and Burma, where we have a positive balance of revenue after meeting all the recurring items of expenditure, the loan instalments due, and the contributions towards the sinking fund on the loans already contracted. (See Table C.) In the remaining six provinces which have a negative balance there are some provinces like the United Provinces which have absolutely no margin for raising further loans, while others such as the Punjab where the negative balance is rather apparent than real. In the United Provinces, the *minus* balance is met partly from the sale of securities and partly from the proceeds of a big loan of more than 7½ lakhs of rupees, and that is why I am inclined to think that in this province there is the real problem of over-spending in an unthoughtful way. The same seems to be true of Bombay and Central Provinces. While in the Punjab, the *minus* balance of more than 10 lakhs is easily met almost half and half from the closing balance and the sale of securities indicating thereby that the financial position is on the whole sound. The same seems to be the case with N.-W.F. Province and Burma. And even in the three provinces of U.P., C.P., and Bombay an analysis of individual municipal finance shows that this unhealthy situation is the result of excessive capital expenditure on the part of a few big municipalities such as Lucknow in the United Provinces. The Examiner, Local Funds Accounts, remarks about this municipality that "At Lucknow, the expenditure of the year exceeded the income by over Rs. 33,000 while the closing balance, *viz.*,

Rs. 2,14,871 after deducting the unspent balances of loans and grants aggregating Rs. 2,48,111, comes to a deficit figure of Rs. 33,240. If the amounts of earmarked items and unpaid bills of the year, the total of which comes to Rs. 85,861, be taken into account, the debit balance would rise to Rs. 1,19,101. From this it is manifest that the municipality has become bankrupt." The same is true of Cawnpore in the United Provinces and Amraoti in the Central Provinces.

The impression created on one's mind after going through the financial statements of the local bodies whether of the prosperous or of the bankrupt variety is that they do not regulate their finances on the approved financial principles of public bodies, but on simple domestic economy lines. They forget that though in a private person it is considered creditable to have a substantial Savings Bank Account and substantial investments in securities, the presence of these very items in the accounts of a public body beyond anything that may be needed to meet the debt liabilities is looked upon as an indication not only of bad finance, but also as lack of enterprise. It is high time that our local bodies learn to regulate their income for each individual year according to the estimated expenditure of that year by raising or lowering the rates of taxes that they charge from the public. Because if this is done not only would their finances become up-to-date and progressive, but their budget discussions also would acquire a practical significance which would lead the members and the general taxpayer to take a lively interest in them, and the general affairs of the local bodies.

TABLE 6. MUNICIPALITIES (1926-27)

Provinces.	Excess of ordinary income over ordinary expenditure.	Realisations from Sinking Fund for Repayment of Loans.	Total of (1) and (2).	Loans Repaid.	Payments to Sinking Fund	Balance from (3) after deducting (4) and (5)	Loans raised during the year.	Opening Balance.	Securities sold, with drawsals from Savings Bank, and Deposits.	Closing Balance.	Purchase of Securities, Deposits in S. Bank and Deposits.	Excess of (7), (8) and (9) over (10) and (11).
	(1)	(2)	(3)	(4)	(5)	(6)*	(7)	(8)	(9)	(10)	(11)	(12)*
Assam	44	...	44	13	...	31	...	2.07	19	2.41	15	-51
Bengal	4.01	...	4.01	3.51	2	48	...	17.88	4.81	15.67	12.33	-48
Bihar and Orissa	89	1	90	63	2	22	...	6.69	4.02	8.11	3.29	-21
United Provinces†	1.40	6	1.46	6.64	18	-536	7.60	35.13	10.95	39.33	9.11	6.37
Punjab	72	...	72	9.58	1	-10.31	30	40.36	12.12	35.89	7.17	10.32
N.-W. F. Province	1.27	...	1.27	2.22	...	-3.48	44	9.36	12	6.15	28	3.49
Bombay†	-16.98	88	-16.60	4.90	1.98	-23.48	1.96	1.90.97	80.25	1,18.51	74.88	23.49
Central Provinces	3.54	...	3.54	2.97	15	-5.96	2.91	17.78	7.06	15.35	6.42	5.96
Madras	2.06	...	2.06	5.07	...	-3.01	16.52	36.20	27.15	46.48	40.38	3.01
Burma	9.26	...	9.26	1.46	.48	7.32	1.44	25.91	5.15	26.64	3.17	-7.31

(Three Zeros omitted)

\* Compare both these items.

† Figures are for 1925-26.

### TABLE D. DISTRICT BOARDS

Provinces.	Excess of ordinary income over expenditure.		Loans repaid.		1-2.	Loans raised.		Opening Balance.		Securities, with- drawals from S. Bank, Ad- Dances and Deposits.		Closing Balance.		Purchase of Securities Ad- vance and De- posits.		Excess of, 4, 5 and 6 over 7 and 8.
	1	2	3	4		5	6	7	8	9						
1. Assam	...	15,000	11,000	4,000	9,78,000	1,49,000	10,17,000	1,14,000	-4,000							
2. Bengal	...	-5,52,000	1,46,000	-6,98,000	1,90,000	87,15,000	94,68,000	7,74,000	6,98,000							
3. Bihar and Orissa	...	7,14,000	1,47,000	5,67,000	4,27,000	51,79,000	61,35,000	11,56,000	-5,67,000							
4. U. P.	...	-7,13,000	1,10,000	-8,23,000	2,70,000	44,55,000	37,68,000	3,47,000	8,24,000							
5. Punjab	...	-9,61,000	...	-9,61,000	76,000	46,90,000	37,59,000	1,64,000	9,63,000							
6. N.-W. F. Province	...	1,50,000	...	1,50,000	...	4,02,000	5,46,000	12,000	-1,51,000							
7. Bombay	...	14,21,000	65,000	13,56,000	3,000	44,22,000	54,68,000	6,22,000	-13,56,000							
8. C. P.	...	2,23,000	...	2,23,000	...	22,00,000	22,79,000	17,95,000	-2,23,000							
9. Madras	...	15,85,000	39,000	15,46,000	5,66,000	77,90,000	90,15,000	66,69,000	-15,45,000							
10. Burma	...	9,61,000	1,36,000	8,25,000	35,000	28,50,000	35,40,000	1,60,000	-8,25,000							

# CENTRAL AND PROVINCIAL FINANCIAL RELATIONS IN INDIA

BY

S. V. AYYAR,

*Dacca University*

## SUMMARY

The Paper traces in brief outline the historical development of the relations between the Government of India and the Provincial Governments since 1870 right up to the present day. It is divided into two sections—the period before the Reforms and the period after the Reforms. Wherever possible references to the constitutional documents have been made.

The latter part of the Paper is a little critical of the present position and takes the view that the work of the Provincial Governments is as important, as, if not more important than, the work of the Government of India, and pleads for a further inquiry and re-adjustment of finances in favour of the Provinces so that a great impetus may be given to the progress of Education, Public Health and Agriculture. Retrenchment in the Central Government military expenditure up to a minimum of 5 crores is recommended and an imposition of an additional 4 per cent duty on cotton imports is also recommended. The Paper also advocates a reconsideration of the arrangements made with the Railways in the matter of the contributions to Central Revenues. These suggestions may be expected to give the Government of India a little over 12 crores, and the transfer of the Income Tax to the Provinces is recommended. In the alternative the transfer of education to the Central Government is suggested.

Relevant statistics from the Statistical Abstract of British India are given in Appendices to enable the reader to appreciate



the growth of Revenue and Expenditure since the introduction of the Reforms.

---

The financial relations between the Central Government and the Governments of the Provinces in India have naturally followed the political relationships and re-adjustments of these authorities during the half-century and more that followed the Indian Mutiny. The centralisation of Government at the centre, which was natural, left the Provincial Governments little initiative in the matter of finance. The whole organisation and control of revenue and expenditure was under the Central Government. Even in 1860, it was realised that this centralisation was 'regarded with feelings of aversion by the local governors whose powers it curtails and with whose act it interferes.' In 1862, this system was characterised as one of 'barren uniformity and pedantic centralisation.' In 1870, the Governor-General-in-Council came to the following conclusion on Provincial Finance: 'It happens that the Supreme and Local Governments regard from different points of view measures involving expenditure; and the division of responsibility being ill-defined, there occur conflicts of opinion injurious to the Public Service. In order to avoid these conflicts, it is expedient that, as far as possible, the obligation to find the funds necessary for administrative improvements should rest upon the authority whose immediate duty it is to devise such measures. The Supreme Government is not in a position to understand fully local requirements; nor has it the knowledge necessary for the successful development of local resources. Each province has special wants of its own, and may have means for supplying them which could not be appropriated for Imperial purposes.' From 1870 therefore, the Provincial Governments were to get specific annual grants from the Imperial revenue and were given financial

NOTE.—The words 'Local' and 'Provincial' have been used as synonymous as applying to Provincial Governments in India throughout the Paper,

control of certain 'Departments of Administration in which they may be supposed to take special interest' as the following:

Jails	Printing
Registration	Roads
Police	Civil Buildings
Education	Miscellaneous Public Improve-
Medical Services	ments

(Except Medical Establishments)

Under this scheme known as Lord Mayo's Decentralisation scheme, the Local Governments might take in the receipts from the above heads, and might use as they pleased any surplus but had to make good any deficit resulting from their administration. It was however soon realised that provincial responsibility had been 'extended in expenditure, but not in the sources of Income.' The contract system of 1877 went a step further.

The system of 1882 was based on the resolution of the Government of India on the extension of Provincial Finance (September 30, 1881, No. 3353). The principle embodied in this was that 'instead of giving Local Governments a fixed sum of money to make good any excess of provincialised expenditure over provincialised receipts, a certain proportion of the Imperial revenue of each province should be devoted to that object.' Certain heads as few in number, as possible, are wholly or with minute local exceptions only, reserved as Imperial; others are divided in proportion for the most part equal, between Imperial and Local; the rest are wholly or with minute local exceptions only, made Provincial. The balance of transfers being against the Local Governments is rectified for each province by a fixed percentage on its Land Revenue. It was claimed by the Government of India that this was an improvement on Lord Mayo's system for 'the Provincial Governments would be given a direct interest, not only in the provincialised revenue, but also in the most important item of Imperial revenue raised within their own pro-

vince.' Section 13 of the Government of India resolution provided that 'the Imperial and Provincial Governments should have joint and equal interests in the net revenue from Forest, Excise, Assessed Taxes, Stamps and Registration.' The Imperial Government was to claim no share in the Revenue from Provincial Rates.

The contracts of 1887 and 1892 and 1897 did not enunciate any new principle but merely consolidated certain rules and regulations for the better organisation and working of the system.

In 1904, it was realised that the periodic revisions 'interfered not only with the continuity of provincial finance, but also provided opportunities for extravagance.' It was also found that the system might lead to the absence of any harmonious adjustment of finances at the time of such revisions.

The system of 1904 aimed at the introduction of an element of permanency into the settlements and the idea of a five-year revision was abandoned though the Government of India reserved the right 'to revise the settlement of any or all provinces at any time in case of necessity.'

In a resolution dated 18th May, 1912, on Provincial Finance, No. 27-F., the Government of India deduced what in their opinion was the 'theory' of the settlements. "Its institution," they said, "represents an attempt to solve a problem which must always arise where there exists a Local Government in complete or partial subordination to a Central authority. In India where the great bulk of the revenues of the country is collected in, and credited in the accounts of, the various provinces, the problem resolves itself into the question how the Central Government can best be supplied with resources to meet the charges of the services which it must of necessity administer. To meet its own expenditure, the Government of India retains, in the first place, the entire profits of the commercial departments and secondly all the revenue whose 'locale' is no guide to its true incidence such as the net revenue from customs, salt and opium. The income derived from these sources is insufficient to cover the cost of the

Imperial services, and an arrangement had therefore to be made by which the other sources of revenue should be distributed between the Central and the various Provincial Governments."

In coming to conclusions on the problem of the Relation of Central to Provincial Finance the Government of India in 1912 had the advantage of the Report of the Royal Commission on Decentralisation. They decided 'to introduce as great a degree of finality as possible into the financial relation of the Imperial Government with the Provinces.' They wrote: 'If Provinces could be provided, once and for all, with settlements so framed that Local Governments could develop their administration from their own assigned resources and could fairly be warned that they must not, except in cases of unusual calamity, expect assistance from Imperial funds, the task of the Government of India would be considerably simplified.'

The Government of India's opinion on the question of lump grants to Provincial balances by the Central Government is interesting. 'Such grants have frequently been given to individual provinces, in order either to admit Local Governments to a share in an exceptional increase of prosperity, or to afford the means of financing a policy which commends itself to the central authority.' In spite of an amount of criticism of what was termed the 'policy of doles' before the Decentralisation Commission both the commission and the Government of India were agreed that the total abolition of 'doles' was impracticable.

Even in these years complaints about the inequality of these settlements were not uncommon. The Government of India admitted the extreme difficulty of giving any conclusive reply to these complaints. 'The supposed inequality of treatment, if it exist at all,' they wrote, 'is *historical* and *inevitable* rather than the outcome of administrative impartiality.' At every periodical review the poorer governments have pressed their grievances and the haggling of a quarter of a century has established a *rough*, equity which could not now be replaced by theoretical calculations.

And so it was that in the 1912 attempt at permanency no radical alterations in the then existing settlements were made.

Such then, in brief, was the position in the matter of the financial relations between the Central and Provincial Governments which was reached just before the War. The Reforms scheme brought a new 'angle of vision' altogether. The distinguished authors of the Report on Constitutional Reforms recommended a further decentralisation and for a division of sources of revenue as between the Central and Provincial Governments. They wrote (p. 131): 'Above all we saw that the existing financial arrangements between the central and local governments must be changed if the popular principle in government is to have fair play in the provinces. The present settlements by which the Indian and Provincial Governments share the proceeds of certain heads of revenue are based primarily on the estimated needs of the provinces and the Government of India disposes of the surplus. This system necessarily involves control and interference by the Government of India in provincial matters. *Our idea* is that an estimate should first be made of the scale of expenditure required for the upkeep and development of the services that clearly appertain to the central sphere, that resources with which to meet this expenditure should be secured to the Central Government and that all other sources of revenue should be handed over to the Provincial Governments which will thenceforth be responsible wholly for the development of the provincial services.'

The report recognised the difficulties of the task, for in essence the main improvement suggested by the 'authors' was the abolition of divided heads, and so arranging the separate sources of revenue as would be sufficient for the needs both of the Central Government and the Local Governments. They recognised that provincial contributions for financing the Central Budget would be necessary on the basis of their recommendations and a small committee of experts was appointed to work out details of financial adjustments. This committee presided over by Sir James (now Lord) Meston made specific recommendations about the

actual amount of contributions from each of the provinces to the Central Government. The authors of the Report on Constitutional Reforms were afraid that no decision could satisfy all the provinces and they therefore recommended that 'it should be one of the duties of the periodic commission which we propose should be appointed to examine the development of constitutional changes after ten years' experience of their working, to re-investigate the question of provincial contributions to the Government of India.

The Meston Committee recommendations pleased very few Provincial Governments. They had undertaken a difficult task. The 'historical' difficulties stood in the way and the committee felt that they had no authority, to criticise the military and financial policy of the Government of India. They recognised the limitations of their task but valiantly proclaimed: 'In arriving at this ratio we have taken into consideration the indirect contributions of the provinces to the Government of India and in particular the incidence of the customs duties and income tax. We have inquired into the relative taxable capacities of the provinces in the light of their agricultural and industrial wealth and *all the other relevant* incidents of their economic positions including particularly their liability to famine. It should be observed that we have considered their taxable capacities not only *as they are* at the present time, or as they will be in the immediate future, but from the point of view also of the capacity of each province for expansion and development agriculturally and industrially and in respect of imperfectly developed assets such as minerals and forests.' When one remembers that this committee was appointed on the 5th February, 1920, and completed their report on the 31st March, 1920, we are reminded by their claims of Nietzsche's 'Super-Man.'

The Meston recommendations are now past history. The committee made two sets of recommendations—one for contributions for the year 1921-1922 and the other which was to be a standard so long as Provincial contributions had to be paid. It was provid-

ed that when for any year the Government of India determines as the total amount a sum smaller than that payable in the preceding year, a reduction is to be made in the contributions of those Local Governments only whose last previous annual contribution exceeds the proportion specified below of the smaller sum so determined as the total contribution, and any reduction so made is to be proportionate to such excess :

Madras	...	...	17-90 ths.
Bombay	...	...	13-90 ths.
Bengal	...	...	19-90 ths.
U. P.	...	...	18-90 ths.
Punjab	...	...	9-90 ths.
Burma	...	...	6½-90 ths.
C. P.	...	...	5-90 ths.
Assam	...	...	2½-90 ths.

The one point that is bound to strike the student of Finance is this, that revenue sources or the amount of revenue of any Government, whether provincial or central, must have some definite relation to the function or functions which some authority has to discharge. With the growth of a sense of provincial responsibility and with the necessity for decentralisation of functions to provincial authorities provision had also to be made either to assign revenues to Local Governments either by a separation of sources or other means. The Government of India Act provided in Appendix B, Devolution Rules, Schedule I, Part I, a list of central subjects. The chief of these are :

1. Defence of India, and all matters connected with His Majesty's Naval, Military and Air Forces in India, or with His Majesty's Indian Marine Service, or with any other force raised in India other than military and armed police wholly maintained by Local Governments.

2. External Relations.
3. Relations with States in India.
4. Political charges.
5. Posts, Telegraphs, Telephones including Wireless Installations.
6. Customs, income tax, salt and other all-India sources of revenue.
7. Currency and Coinage.
8. Public Debt of India.
9. Emigration from immigration into British India.

Apart from the administration of the above, there are a number of other subjects which have been specified as under the Government of India.

Schedule II of the Devolution Rules gives us a list of Provincial subjects, the chief of which are:

1. Local self-government,
2. Medical administration, including hospitals, dispensaries and medical education,
3. Public health and sanitation,
4. Education,
5. Public Works,
6. Water-supplies, irrigation and canals, drainage and embankments, water-storage and water-power,
7. Land revenue administration,
8. Famine relief,
9. Agriculture,
10. Co-operative societies.

There are of course a number of other subjects classified as under provincial administration,



This Paper does not propose to discuss anything about the authority that ought to administer the collection of revenue or even of the propriety of transferring to Local Governments particular subjects or *vice versa*. The object is only to examine whether the transfer or division of functions as between the Central and Local Governments has been done with a view to the proper and efficient discharge of the responsibilities vested by law in the various administrations.

A survey of provincial subjects indicates without a shadow of doubt that the provinces require a continually expanding source of revenue, and also that other things remaining the same, the proper administration of the responsibilities of Provincial Governments in the matter of providing proper water-supply, irrigation, education, and medical relief is of vital importance to the population of the country. There is no doubt that defence is necessary, as much as the post and the telegraph, but life is more important still. If Provincial Governments starve their constructive activities to provide proper facilities for effective existence, the defence of the country becomes an illusory protection to the masses who suffer from want of adequate food, medical relief, and other such important things. The functions of the Central Government are undoubtedly of first class importance, but from the economic standpoint the functions of the Local Government which the Government of India Act expects the Local Governments to undertake are no less important.

How then can we pool the resources of the country so that a mere equitable arrangement may be possible? There is no doubt that the matter is urgent, and even if the Simon Commission does not recommend political changes, if its inquiry will lead to a better division of the resources that would be a distinct advantage to the country for the Provinces must go ahead in the matter of their expenditure on Education, Sanitation and Agriculture.

The Agricultural Commission has made a very 'big' report running into 675 pages, and the total cost of the Commission has been calculated at about Rs. 13,72,734. If the Government is

sincere about Agricultural progress, and if this expenditure on the Commission is to be justified, there is no doubt that an amount many times more than that spent on the Royal Commission would have to be spent in each of the provinces in India. On p. 672 they write: 'The demand for a better life—in rural areas—can in our opinion be stimulated only by a *deliberate* and *concerted* effort to improve the general conditions of the country side, and we have no hesitation in affirming that *the responsibility* for initiating the steps required to effect this improvement *rests with the Government*. If the inertia of centuries is to be overcome, it is essential that *all the resources at the disposal of the state should be brought to bear on the problem of rural uplift*.' The Commission are also very strong on the question of the development of Co-operative Societies. They write, 'We have no hesitation in recording our belief that the greatest hope for the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organised Co-operative movement based upon careful education and systematic training of the villagers themselves. If the rural community is to be contented, happy and prosperous, Local Governments must regard the Co-operative movement as deserving all the encouragement which lies within their powers to give.' There is no end of advice to the provinces as to what they might or not do or what they might do better. But where is the elastic source of revenue for such elastic demands which grow with every year.

Thanks to Sir Basil Blackett, the Provincial contributions have, let us hope, been abolished permanently. But this is small relief except for certain provinces like Madras and the United Provinces. In presenting the Budget Estimate for 1928-29 Sir Basil said, 'What this budget does is to provide a surplus sufficient *finally* to *extinguish* the Provincial contributions. The Provinces have now no further fears of a counter-attack. They can proceed to carry out the *great task* allotted to them in the governance of India with the knowledge that no part of the revenues at their

disposal will be diverted to the Central Government's purse. Sir Basil also expected a *recurring surplus* for the Government of India which 'they will be free to turn to new directions in which money can be usefully laid out for India's advancement.'

Now is the time to consider the question of financial relations. The Simon Commission is sitting in the country, the Government of India have a 'balanced' budget, and the provinces have yet their demands imperfectly satisfied. So far as the sources of revenue are concerned, the Government of India's chief items are: Customs, Income Tax, Opium, Salt, Contributions from Railways, Miscellaneous. The Provinces have Land Revenue, Excise, Stamps, Forests, Registration, Miscellaneous.

The figures given in Appendix A give the details of Revenue of the Government of India as also the Expenditure for the period from 1921 up to the present time. [Appendix B gives similar figures for the Provincial Governments except Burma.]

One thing will be clear from the figures. The Provincial Governments have not been able to find adequate revenue for any great activities from current revenue and their expenditure has necessarily to be regulated to their income. The Central Government has, however, been able to find at least in some degree an elastic source in Customs and Income Tax. There is no doubt Permanent Settlement in Bengal which considerably affects the revenues of the province, compared with other provinces, but on the other hand Bengal has made attempts to improve her taxation in other directions. Still it is a fact that Bengal's income and expenditure are ridiculously out of proportion to her needs. Of the major provinces Bengal has the least revenue and spends least, whilst her demands are as great as, and even greater than, the other provinces. There is no doubt that more money must be found for the provinces and more especially Bengal. No doubt if the time comes when the Permanent Settlement can be repealed, Bengal would come into line with other provinces and add a few more crores to her revenues. But still the Provinces as a whole would need more and more revenue for their vital and growing

needs. Already so far as income tax is concerned, it is a sort of divided-head between the Government of India and the Provinces.<sup>1</sup> It appears to me that *as a first step* in providing an additional source of revenue to the Local Governments, the Income Tax while being administered by the Central Government may be transferred to the Provinces. The result will be that a sum of 15 crores or near about that would be released every year for the development of important improvements in Provincial areas. The Provinces would get the amounts marked opposite their names as additional revenue:

	Income Tax.	Super. Tax.	Total.
Madras ...	1,13,89,129	18,72,146	1,32,77,192
Bombay ...	2,48,56,291	72,54,365	3,21,11,310
Bengal ...	3,24,48,856	2,45,40,572	5,69,90,268
U. P. ...	59,24,465	14,67,511	73,91,976
Punjab ...	63,26,737	5,60,588	68,87,325
B. & O. ...	38,61,792	18,30,121	56,91,913
C. P. ...	31,59,869	7,15,836	38,75,705
Assam ...	17,98,167	3,34,023	21,32,190

(Finance and Revenue Accounts of the Government of India for the year 1926-27.)

The question may well be asked: what about balancing the Central Budget if this 15 and odd crores are taken over to the Provinces. A way out should not be difficult. Retrenchment of the Central Government's expenditure should have to be made and even if the Inchcape Committee's recommendations are adopted in the main, some saving is bound to be. Secondly, as Prof. Seligman pointedly suggested to the Taxation Enquiry Committee, we

<sup>1</sup> Under Rule 13 of the Devolution Rules, as it stands at present, whenever the assessed income of any year of any province exceeds the assessed income of 1920-21, the Local Government of that province is credited with an amount calculated at three pies in each Rupee of the amount of such excess.

must examine, if anything can be done with the Tariff and if we can get a higher revenue there.<sup>2</sup> We might also examine the suggestion of Seligman for the introduction of what he calls a 'business tax' in India and explore the possibilities.

It appears to me that a 'rough' balancing may be made possible by the following arrangement: The military expenditure should be brought down to 50 crores, an additional duty of 4 per cent be levied on cotton imports into India; and thirdly a re-arrangement be made to divert more of the surplus profits of the railways to general revenues. The saving on the military would give us at least 5 crores, the Textile Tariff Committee estimated<sup>3</sup> the 4 per cent additional duty to bring in at least 5 crores in the three years from 1927-28, and if the Central Government insists on diverting less to the Reserve Fund of the Railways, they might appreciably increase their share from Railway profits.<sup>4</sup> An additional 3 crores contribution to central finance from Railways is not a difficult possibility. If we examine the problem impartially, it will be found that the Central Government would not appreciably suffer, whereas the Local Governments could forge ahead and might reduce dirt, disease, and death from many areas in India, thus increasing the taxable capacity of her people by making them less unhealthy and more educated.

If, however, the Government of India is unwilling or unable to transfer this source of revenue to the Local Governments, the next best thing would be for the Central Government to take back 'Education' as a central subject and find the necessary amount for expenditure on the growth of education. [The details of the figures of expenditure on Education in the different Provinces are given in Appendix C.] It will be found from the latest figures, that of 1926-27, that the Provincial Governments have to spend a little over 11 crores for the 'discharge of their responsibility for

<sup>2</sup> Report, Taxation Enquiry Committee, Vol. II, p. 9.

<sup>3</sup> Report, Tariff Board (Textiles), p. 200.

<sup>4</sup> Vide Appendix D.

the spread of Education.' There is no meaning in saddling Provincial Governments with the responsibility for administration of very responsible subjects wherein a bold and forward policy would be the only possible course, and providing them with inelastic sources of revenue. The expenditure of only 2 crores on 'Agriculture' in India by all the Provincial Governments together is a veritable scandal. No wonder that the Agriculturist knows mighty little of the Department or its activities in the different provinces. The expenditure on 'public health' by all the Provinces does not exceed 2 crores. No doubt retrenchment of expenditure in the Provinces would be as much necessary as in the Central Government, but even when every re-adjustment is made Provinces would require ever-growing sources of revenue. I do not agree that the re-transfer of education to the Central Government is an ideal solution, but it appears the best under the circumstances. It has at least this merit that the Government of India would be compelled to have their full share of responsibility for the uniform development of Education all over India, and might in some way remedy the ill-regulated and un-co-ordinated attempts at developing Education by Provincial Governments with extremely limited sources of revenue to expand their activities. Additional revenue for the Central Government may yet be found in a limited degree by a re-adjustment of the faulty system for the due discharge of its 'legitimate' responsibilities. The field must be explored.

## APPENDIX A

*Revenues of the Government of India (Main Items)*

Heads of Revenue.	1921-22.	1922-23.	1923-24.	1924-25.	1925-26.	1926-27.	1927-28.	1928-29.
Customs ...	34,40,98,381	41,34,65,362	39,69,64,296	45,76,31,516	47,77,95,049	47,69,71,000	48,73,00,000	50,18,00,000
Income Tax ...	18,74,13,424	17,99,41,150	18,23,55,516	16,01,48,253	15,85,93,489	15,85,47,000	15,65,00,000	17,00,00,000
Salt ...	6,34,37,848	6,82,46,112	10,01,50,870	7,83,04,880	6,32,96,778	6,70,00,000	7,00,00,000	7,00,00,000
Opium ...	3,07,24,798	3,78,92,068	4,24,81,654	3,79,76,177	4,14,99,581	4,18,51,000	3,83,08,000	...
Railways: Net	14,96,09,252	26,56,57,592	32,45,78,258	36,92,78,710	33,50,61,961	32,81,80,000	6,36,00,000	5,23,00,000
Posts and Telegraphs: Net	56,52,778	1,22,29,448	96,12,987	1,11,25,087	86,35,329	48,93,000	58,07,000	...
Total: (including other items)	1,15,21,50,317	1,21,41,29,156	1,32,78,64,537	1,37,53,18,119	1,33,17,30,492	1,29,97,48,000	1,25,25,76,000	1,32,23,00,000
<i>Expenditure</i>								
Total ...	1,42,86,52,017	1,36,43,05,548	1,30,89,64,769	1,31,84,92,421	1,29,86,12,305	1,30,57,65,000	1,25,25,76,000	1,39,60,00,000
Military ...	77,87,98,340	71,00,58,955	61,04,31,760	59,66,51,877	60,39,37,045	59,17,79,000	56,72,49,000	55,10,00,000

# APPENDIX B Revenues of the Provincial Governments

Years.	Madra.	Bombay.	Bengal.	U. P.	C. P.	Punjab.	Assam.	Bihar and Orissa.
1921-22	11,74,88,517	13,10,72,689	8,32,44,177	10,01,55,348	4,71,87,880	7,09,68,534	1,81,53,434	4,42,63,086
1922-23	12,57,75,165	14,17,19,843	9,84,95,874	10,06,04,840	5,15,33,538	8,27,90,005	1,84,43,219	4,94,11,126
1923-24	12,99,38,108	14,52,52,420	10,13,16,594	10,31,14,055	5,17,11,788	9,15,82,660	2,10,87,851	5,28,29,381
1924-25	12,79,03,158	14,99,17,671	10,34,23,710	9,99,53,115	5,25,34,210	9,79,71,540	2,30,48,661	5,36,53,367
1925-26	14,71,35,400	15,24,18,027	10,70,17,483	10,86,67,860	5,55,14,115	11,51,99,453	2,50,05,279	5,78,93,818
1926-27	15,18,49,735	14,58,06,734	10,50,35,531	11,38,71,111	5,07,02,151	10,85,71,009	2,43,49,267	5,73,96,891

## Expenditure of the Provincial Governments

1921-22	12,73,60,646	15,01,92,950	10,47,90,959	11,49,42,138	4,95,40,273	6,81,11,529	2,05,22,846	4,57,98,553
1922-23	12,60,76,848	13,53,17,264	9,59,20,927	10,70,97,709	4,89,57,404	8,84,44,159	2,05,46,550	4,63,24,328
1923-24	12,63,07,388	14,23,44,788	9,77,94,988	10,47,50,006	5,17,11,783	8,04,01,129	1,70,01,789	4,84,33,637
1924-25	13,08,50,472	14,72,56,791	9,76,01,738	10,42,49,078	5,25,34,210	7,94,73,479	2,00,28,753	5,13,12,392
1925-26	13,72,98,669	16,15,51,601	10,30,63,430	11,17,42,763	5,35,14,115	9,94,38,298	2,38,21,407	5,54,92,774
1926-27	14,17,01,929	16,23,67,419	10,70,94,592	11,33,80,288	5,74,38,036	11,46,69,766	2,43,20,933	6,05,00,284

N.B.—It will be noted that Provinces have not been able to increase their revenue or expenditure to any serious degree in a number of cases.



APPENDIX C  
*Expenditure on Education from Government Funds*

Years.	Madras.	Bombay.	Bengal.	U. P.	Punjab.	B. and O.	C. P.	Assam.	India.
1926-27	1,96,61,576	1,99,37,402	1,35,19,442	1,93,57,965	1,42,53,036	92,21,280	61,38,289	26,59,894	11,93,89,362
1925-26	1,87,52,057	1,92,80,622	1,43,63,858	1,78,61,927	1,33,04,875	57,83,699	58,37,576	23,49,852	10,88,57,785
1924-25	...	...	...	...	...	...	...	...	9,98,01,594
1923-24	1,67,13,404	1,89,55,834	1,30,09,486	1,62,57,109	1,13,15,754	46,71,609	53,02,455	22,36,226	9,74,76,422
1922-23	1,55,10,384	1,72,07,042	1,31,62,947	1,58,27,833	1,13,36,242	44,82,974	55,78,406	23,74,454	9,36,87,116
1921-22	...	...	...	...	...	...	...	...	9,02,30,028
1920-21	...	..	...	...	...	...	...	...	7,72,86,445

*N.B.*—It is hardly necessary to point out the expenditure on education from Government Funds is ridiculously inadequate to educate the masses of the population even in the rudiments of the 5 R's. The disproportion of the application of even these limited resources is found in the fact that Primary Education is starved and University Education receives greater attention at the expense of the less pretentious but equally necessary preparation for life.

[Statistics of British India (Fifth Issue); Finance and Accounts of the Government of India, 1926-27.]

## APPENDIX D. RAILWAYS

*Note:*

- (1) In consideration of the Railway finances being separated from the general finances of the country, the general revenues receive a definite annual contribution from Railways which is the first charge on the net receipts of Railways.
- (2) The contribution is based on the capital at charge and working results of commercial lines and is a sum equal to one per cent on the capital at charge of commercial lines at the end of the financial year next but one preceding, plus one-fifth of any surplus profits remaining after payment of this fixed return, subject to the condition, that if in any year Railway revenues are insufficient to provide the percentage of one per cent on the capital at charge, surplus profits in the next or subsequent years will not be deemed to have accrued for purposes of division until such deficiency has been made good.
- (3) Any surplus remaining after this payment is carried to a Railway Reserve provided that if the amount available for transfer to the Railway Reserve exceeds in any year three crores, only two-thirds of the excess over three crores is transferred to the Railway Reserve, and the remaining one-third accrues to general revenues.

*Railway Statistics*

Years.	Contribution to Central Revenues.	Depreciation Fund.	Reserve Fund.	Remarks.
1925-26 ... ..	5,09,38,083	10,66,87,999	3,79,80,973	
1926-27 ... ..	6,00,86,886	11,04,11,000	2,70,07,000	
1927-28 ... ..	5,48,08,465	11,50,00,000	4,75,00,000	
1928-29 ... ..	5,50,00,000	...	3,50,00,000	

*Note.*—It may be noted that the Finance and Revenue accounts of the Government of India for 1926-27 give 11,27,62,361 as the total balance on 31st March, 1927, which with 3,50,00,000 make up a total of Rs. 15 crores on the 31st March, 1928, in the Railway Reserve Fund.

The Depreciation Fund shows a credit of 8,58,40,481 on the 31st March, 1927. It may be pointed out that since proper provision is made for 'Depreciation' it is hardly necessary to develop a big Reserve Fund from revenues, and the General Revenues may well claim an increased share of contribution. The whole arrangement may be reconsidered with a view to securing to the general Revenues a sum not very much below 10 crores annually. This may be done either by increasing the percentage contribution from one to two per cent or by increasing their share of the surplus.

---

## A REVENUE SYSTEM FOR INDIAN CENTRAL AND PROVINCIAL GOVERNMENTS

BY

T. K. SHAHANI,

*Samaldas College, Bhavnagar.*

With the advent of the Simon Commission the question of a well-adjusted Revenue system for India has again come to the forefront; for no constitution, however well devised, can produce a workable scheme of Government without the support of an adequate machinery of Public Finance. The Montford recommendations as ultimately adopted by the Meston Settlement, no doubt, took the first step in placing the financial relations between the Central and Provincial Governments on a federal basis; but with the best of intentions they failed to give satisfaction to everybody and caused, in the case of some provinces at least, a sense of deep discontent which must necessitate a revision of the settlement. Since the inauguration of the settlement quite a volume of criticism has been levelled against it by the Press and the different Legislatures and Governments of the country; but no satisfactory solution has yet been offered from a place of authority. The writer of this paper was among the first critics of the Meston Settlement; for even before the scheme had come into operation and the Provinces had started their tale of woe, he had, as a student of Federal Constitution and Federal Finance, seen some fundamental defects in the scheme which augured ill for its success. As the result of a little study of this subject he, on two successive occasions (December, 1920 and March, 1922) read, on this theme,

papers from the platform of the Indian Economic Conference at Allahabad and Patna which were duly printed in the Journals of that Society; but as the principles enunciated therein have not yet had sufficient publicity, the writer ventures again to put forth his views before the Economic Conference in the hope of their being helpful to the future framers of a Revenue system for India.

To appreciate our difficulties in devising a Revenue system suitable and adequate for all our Governmental agencies, we ought first to realise the peculiar type of Government we in India are gradually evolving to which there is no exact parallel in the history of the world. The financial system of a country bears a close relation to the nature and form of its Government. British India of the days of the East India Company took nearly 80 years after the battle of Plassey to control the centrifugal tendencies of the place and centralise all Governmental finance and legislature in the hands of the Governor-General-in-Council at Calcutta. To give this vast country a sense of national consciousness and solidarity it was necessary to focuss all Government in one centre and give it a thoroughly unitary bias which India had never before witnessed. Administrative and legislative convenience, however, made it imperative for the Central Government to shed, bit by bit, its unitary form and adopt measures of decentralisation which, in course of time, developed Provincial consciousness and accustomed people to demarcate Provincial functions of Government from the Imperial or the Central ones. Government of India of course, continued to treat Provincial Governments merely as its agents and never slackened its hold over the purse strings of the country. But when the Montford Reforms made the fullest use of this growth of Provincial consciousness and Provincial machinery of Government and took the revolutionary step of bringing into being a measure of Parliamentary-Responsible-Government in the Provinces,—no more as mere agents of an all-powerful master but themselves nearly complete masters in their own house, a very different complexion had to be given to the financial relations of the two to suit the changed conditions.

Prior to the Act of 1919 as the Provinces simply performed certain functions devolved on them as agents of the Central Government, financial settlements between them and the Central Government shifted from time to time and were gradually based on the principle of the division of the collection. The master (Imperial Government) was, however, ultimately responsible for supplying deficiencies and the Imperial "doles" and the Provincial scramble for the same formed some amusing features of that system. But with the introduction of a measure of autonomy in the Provinces it was found necessary to provide them with a revenue system which should, presumably, leave them, for the purposes of the adequate discharge of their functions, independent of the Central Government funds. The responsibility of finding Provincial revenues was thus definitely shifted on to the shoulders of Provincial Legislatures which were required to explore for funds within a narrow field devised on the principle of segregation of sources of revenue for each Government. How the scheme did not pay due regard to some of the fundamental principles of Federal Finance and therefore caused considerable hardship, will be presently shown. But before that, a passing reference may be made to the fact that the Provincial form of Government called Diarchy contributed not a little to the difficulty of making Provincial finances function properly. Provincial Government was cut up in two portions, and the "Reserved" half still looked up to the Central Government as the body to whom they owed responsibility for their conduct, although for their financial requirements they were subject to the vote of the Provincial Legislatures. The Provincial budget was to be framed as one document including expenditure both for the "Reserved" as well as the "Transferred" parts; but, whereas in the latter half the demand of the Ministers was to be in harmony with the Provincial Tax-payers' capacity to bear the burden—consistent with the everyday maxim of an economic man, *viz.*, "cut your coat according to your cloth," the other half, *viz.*, the "Reserved" Departments would insist on their 'pound of flesh' in the interest of Efficiency; and

as the members in charge of those departments were not responsible to the local legislatures and therefore not responsible to the electorate, their demands had no reference to the measure of confidence they might forfeit in the event of adverse criticism. This arrangement inevitably led to wrangles in the Provincial Executive Government and made ministers—the weaker half—bitter against Diarchy. This constitutional aspect of the Provincial Budget has been here referred to only with a view to illustrate how it intensified the hardship of working a restricted field of finance allotted to some Provinces at least. If the field had been more spacious or more productive, the country might have been spared the frequent cry of the unworkableness of Diarchy.

In all fairness to the framers of the Meston Settlement it must at once be conceded that in launching a very revolutionary scheme of converting a strong centralised unitary government into a comparatively looser form of government called federative with possibilities of Provincial patriotism, they were naturally anxious to see that the Central Government was at all costs *amply* provided for by way of funds. The parent government stood for the safety, the integrity and the dignity of the whole country. Very justifiably this consideration carried immense weight with them. The children states—the Provincial Governments—on which a new type of existence had been conferred as a boon may rest content and be thankful for their new position, making the best of the portion settled on them. They, therefore, provided for the Central Government a revenue system which not only guaranteed them *certainly* for normal as well as emergency financiering, but ample scope for *elasticity* of income as if the functions assigned to the Central Government were of such a developmental nature as would require considerable expanding revenue from time to time. Thus in their anxiety to fortify the position of the Central Government they did not pay sufficient regard to two of the root maxims of Federal Finance, *viz.*, (1) to devise for the two different spheres of Government a revenue system which has close correspondence to *the nature of the func-*

tions the two have to perform, (2) to demarcate the fields for exploring all its funds in such a manner that each Government is financially self-contained and finds all its revenue out of the sphere of functions allotted to it. It will, therefore, be the purpose of this paper to develop these points and incidentally submit a scheme for financial re-adjustment which may, possibly, suit this country.

The fundamental principle of modern public finance is that all revenue is provided directly or indirectly out of the pockets of the citizens in response to an established *demand* for public expenditure. This demand again is dependant on what a Government is expected or required to do for the people constituting the Government. We have already said that in India we have now two fairly well-demarcated spheres of Government with specified functions allotted to each. The nature of the functions performed by each Government determines the character of its expenditure. In a Federal arrangement this point needs utmost emphasis. The tax-payer is one. He has to feed two masters (nay, three, if Local Self-Government is to be considered separately). He has, therefore, to take care that each is indeed adequately supplied (but not glutted) with funds in accordance with what is required of it to do. A brief analysis of these functions with their corresponding charges may be a little helpful at this stage.

The very first function of the Central Government is Defence with which there can be no tampering. For the successful performance of this function it is imperative that the Central Exchequer is guaranteed absolute certainty of funds derivable from known and definite sources of revenue accruing from the fields of the Central Governmental activity. But while for the safety of the country it is incumbent to make due provision of minimum revenue, it is not quite wholesome for the country to overfeed this department by placing before its custodian, the prospect of an elastic and expanding source of revenue. It is arguable that with every improvement in international relations and in our immediate environment the expenditure under this item may show



a tendency to decrease. At any rate, under normal conditions, it will be no part of sound finance to make ample provision above the safety-line only because the Army Headquarters will imagine every point on the frontier vulnerable or see no end to the perfection of 'mechanisation' devices. The Government of India resources of revenue ought, therefore, to be *certain* without being very *elastic*. The Emergency of a War is best handled by 'Emergency' Financiering in the shape of public loans behind which, of course, stand all the national resources and all the national wealth which will have to be requisitioned to meet that kind of national calamity. Therefore it is not essential for a revenue system to provide beforehand for 'exigency' financiering. The ordinary methods adopted by all modern Governments will be found serviceable in this country as well. Defence and national debt are, then, the two most outstanding items of expenditure incurred by the Central Government.

Next to safety, Government of India stands for those unifying factors which give a sense of solidarity and integrity to the whole Indian world and at the same time prevent the possibility of provincial conflicts and jarring interests. Commerce and industry with their necessary concomitants, *e.g.*, Railways, Currency, Customs and its counterpart—Excise, Marine, and Aircraft—including all matters of communication, Posts, Telegraphs, Commercial Stamps, etc.—all stand legitimately within the orbit of all-Indian functions. Revenue realised therefrom goes admittedly to the Central Government, which alone is responsible for the effective functioning of these departments. Scrupulous regard for this demarcation of functions will help us to respect the principle of Federal Finance that enjoins on every sphere of Government within a Federation the necessity to appropriate funds for public expenditure only out of those public undertakings for which it and it alone is responsible. Absolute segregation of functions and Revenue resources accruing therefrom is not a mere academic proposition. All charges are voted by Legislatures. The All-India Legislature which concerns itself with All-India functions

must in normal times let its Government live within its own without encroaching upon the Provincial Domain, the custodian of which is the Provincial Legislature.

The Government of India Expenditure in the present times stands in the neighbourhood of 130 crores under the following main heads (1927-28):

*General Statement of Expenditure*

	Rs.
Railways: Interest and Outer Charges (as per	
Railway Budget) ... ..	29,49,05,000
Debt Services ... ..	15,74,34,000
Military Services ... ..	56,72,49,000
Irrigation, Post, Telegraph, Civil Administration,	
etc. ... ..	28,04,12,000
And the Revenue provided for the same stands	
as under:	
Railways: Net Receipts (as per Ry. Budget) ...	34,97,13,000
Customs ... ..	48,73,37,000
Taxes on Income ... ..	16,95,05,000
Salt (Excise) ... ..	7,00,00,000
Opium (Excise) ... ..	3,00,00,000
Irrigation, Posts and Telegraphs, Civil Adminis-	
tration, Currency, etc. ... ..	1,03,04,95,000
Total ...	1,30,00,00,000

Now consistent with the second principle of Federal Finance mentioned above, viz., that each sphere of Government ought, as far as possible, to find revenue out of its own field of activity, Railways, Customs, and Currency are rightly appropriated by the Central Government, which is responsible for solidarity and oneness resulting from freedom of communication, guarantee of a uniform medium of exchange and equal treatment to all in the

matter of trade and commerce. Here the national State fulfils its essential function of giving a sense of unity to the country. The most necessary supplement of Commerce is Industry; and Government of India has rightly started recognising its obligation to the growth of the latter as well. Quite consistent with its function of bringing about unifying influences and of preventing all causes of Provincial rivalries and friction, Government of India alone can undertake the fostering and nourishing of Industries. Now Industry is a comprehensive term. At one end it includes the manufacture of salt which Government sells to the Indian citizen at a monopoly price varying according to its financial needs and therefore capable of being a good paying head of Revenue, and at the other end a bounty-fed concern which will, for some time at least, tax Government funds to enable it to feel its feet. But as such an Industry will always require to be protected from foreign competition, the tariff wall raised on behalf of it will generally bring in some revenue to the Central Exchequer in the shape of Customs. When the Industry is in a position to bear taxes on its outturn consumed in the country itself, it is, in the language of Public Finance, said to pay Excise or Excise Duties. Under this heading, at present, Salt and Opium are the only two Industries contributing to the Revenue of the Central Exchequer. A short while ago Excise Duties on Cotton Manufactures of India came under the same category. Opium Excise Revenue in the days of Lord Curzon gave the Central Exchequer substantial windfalls and consequently helped it to build a plethora of surpluses. It is suggested in some quarters that manufactured tobacco could be a welcome and profitable field for Excise Duties by Government of India. The Indian Taxation Enquiry Committee estimated it at 1,45 lakhs of rupees per year at the minimum incidence of only one anna per head per year. Any Industry therefore, of a sufficiently productive nature and of a fairly wide basis, can, very legitimately, come under the Government of India Excise arrangement. The only anomaly in the present position is the country-made Foreign Liquor and 'the country spirit' which

are left as Provincial head of Revenue. There is no particular point in this except that local conditions are perhaps consulted in producing a particular quality of country spirit or that, as a heritage of the past, Provincial Governments have stuck to it, as they have found in this "restrictive Excise" a fruitful field for funds by turning to the best account the common habit of using country liquors. This anomaly has persisted all along; and one and only one industry has thus been left out of the Industrial Taxation System of the Central Government, and it is at present the only product of the country subject to all sorts of impediments in the matter of free movement in the country, as Excise Laws taboo the carrying of this commodity from one Excise Division to another. If steps were taken to bring it within the entire Excise operation of the Central Government—and let the industry of country-made liquors take its rank with other industries as an All-India industrial outturn—there would be the further advantage of easily determining its fate. No scheme of prohibition has any chance of success if isolated Provincial action is taken in the matter, and that again in the face of the fact that imports of foreign liquors are, except for a small local cess recently introduced by Bombay and Bengal, entirely a concern of the Central Government. The first necessary step in this direction is that all 'liquor' revenue raised by the country—at present consisting of two items—the 'Central' levied in the form of Customs duties on foreign imports, and the Provincial, obtained out of the Restrictive Excise over country-made intoxicants—ought to be merged together in the Central Exchequer. If then at any time hereafter the country makes up its mind to go 'dry,' the question of foregoing so much revenue will be properly envisaged by the whole country and fully discussed in the Central Legislature. There is still another reason why Excise Administration of Country Liquors should go to the Central Government. India is interspersed with autonomous Indian States, each with its own Excise arrangement. These States, in a majority of cases, have direct relations with the Central Government. No national change in the Excise

policy is likely to materialise without the co-operation of these States—which co-operation it will be only in the province of the Central Government to secure.

Customs and Excise go hand in hand. If the sudden outbreak of war cuts off foreign commerce, the nascent industries of the country naturally speed up and find a good market in the country itself. Their profits, at a time when customs are low, can invite the financier's attention—and the imposition of Excise Duty then becomes easily hearable. The Central Government alone is entitled to reap where it alone has sown. In course of time the Excise Revenue accruing to the Central Government out of this industrial growth will bulk largely in the Central Budget. Customs and Excise, along with fairly growing heads of profits under Railways, Currency, Posts and Telegraphs and Commercial Stamps, will quite suffice for the requirements of the Central Government which in addition to its functions of giving protection and commercial unity and industrial solidarity to the country has the responsibility of the compilation of All-India Statistics and of investigating State and international questions by the appointment of bureaus or committees. The expenditure under this head is likely to be of expanding nature; and Succession or Inheritance Duty may be held in reserve and utilised if necessary. Thus a very large field of Indirect Taxes supplemented by direct taxes realised out of Inheritance Duty will easily meet the normal growth of Central Government Expenditure.

In the little sketch of a revenue system for the Central Government given above care has been taken to provide for absolute *certainty* of revenue in the case of the Central Exchequer along with a modicum of elasticity of revenue obtainable from Customs, Railways, Excise, Inheritance, Currency and Commercial Stamps—all expandable heads—on account of the slow and steady operation of the growing wealth of the country. This has been done in view of the nature of its protective and unifying functions which require limited but certain revenues. Apart from Railways,

which are now put on the bases of a commercial concern with sufficient provision for their development, the only developmental function reserved for the Central Government is the supply of Statistics and the undertaking of economic investigations which must keep growing in volume and expenditure. For that increased expenditure a sufficient allowance has been made in the foregoing sketch. Regarding its heaviest item of expenditure, viz., 60 crores of rupees for defence apart from the fact that further retrenchment may possibly be effected, the British Indian Tax-payer may reasonably ask whether it is equitable to saddle him with all this burden when his neighbour in Indian States enjoys all the advantages of this Defence without proportionate sacrifice. Most of the States maintain their small forces, partly as an appanage of their sovereignty, partly for more effective police purposes, but mostly in response to the Imperial demand. The total expenditure on such forces is considerably under 4 crores of rupees. With the exception of Hyderabad and Mysore where the Military cost is about 10 per cent of the total revenue, most of the Darbars keep their military expenditure within 3 to 4 per cent of their yearly income. This is entirely to their credit, as they evidently like to have the very minimum of this necessary evil. For purposes of national defence or emergency these forces are expected to fall into line with the military strength of British India. The whole of India thus spends roughly 64 crores of rupees out of which British India, the major partner, spends 60 and Indian States 4. Obviously there is not much fairness in this arrangement. The case of Indian States claiming practically an exemption from military charges on the score of ancient treaties and engagements with a proprietary Government like the British East India Company needs some investigation as much as, on the other hand, does the question of their share in Indian Customs and Currency Revenues, need looking into. The claim of both sides ought to be adjusted in a true Federal spirit. The Indian States are an integral and valuable part of India; and statesmanship should easily find ways and means to cement the two into a

good Federal Union and a Customs Zollverein without impairing the internal sovereignty of the States. The framers of a revised system of Indian Revenue cannot conveniently burke this issue.

In assigning to the Central Government Customs and Excise as the main heads of revenue along with Inheritance Duty as a reserved field, the writer has kept in view the important financial principle that every Government must find its fund in the Departments it runs and out of the field it is directly concerned with. Income Tax which at present figures prominently in the Central Budget (16 Crores) has, in this scheme, been kept out of the Central operation and reserved for the provinces to which it appropriately belongs. All the income-yielding private property, all the professions and most of the income earned by services are within the orbit of the Provincial Government; and it is the Provincial Government, again, whose function it is to provide for the education, health, police-protection, justice, road convenience and municipal-amenities of life in the case of urban as well as rural population ordinarily assessable under Income-tax. All the developmental and nation-building beneficent functions are provincial. The money demands for the same will always keep growing; and the only way to meet them is by providing for them an elastic source of revenue like the income-tax where a pie or two in the rupee added or subtracted as the Government needs warrant and the public opinion confirms will keep the Provincial Exchequer easy. Consistent with the healthy look of the Province the income-tax may well keep growing and may, in its turn, make the Province still healthier. In the case of commercial or industrial undertakings of individual or joint-stock nature where the income is obtained not only from all over India but perhaps from several other parts of the world as well, income-tax may, fairly speaking, be assigned to the Province which has the headquarters of the firm. The original financing of such concerns is generally the work of one particular Province which, so to say, makes them; therefore it is not improper if a small share of the riches brought into being by these enterprisers is appropriated by the Govern-

ment of the Province that originally nourished them. The difficulty of localising large commercial and industrial earnings in highly industrialised countries like the U. S. has induced economists like Seligman to mark off income-tax as a Federal Source of Revenue. Indian conditions are by no means the same. Most of the earnings are still Provincial. Uniformity of the administration of income-tax laws is not difficult. Moreover, whatever little hesitation the public financier may have regarding the *suitability* of income-tax as a Provincial head, the argument of *adequacy* of Revenue no less respected by Seligman leaves no doubt in the matter. That the Provinces must have *adequate Revenue* capable of elasticity in response to the ever-growing nation-building demands, becomes a controlling factor to determine income-tax wholly in favour of Provinces. Government of India may be left to reach big fortunes by the operation of Inheritance Duty; but under the normal operation of income-tax and super-tax these private fortunes should come within the purview of the Provinces of their birth or domicile.

A glance at the present figure of the total yield of income-tax (16 crores) will show that the amount is a little less than the total revenue on Excise (Country Liquor and other Intoxicants) which it is proposed by this memorandum to surrender to the Central Legislature. Obviously by the proposed arrangement the Central Government becomes richer by nearly 3 crores and has, in addition, the prospect of Revenue from Commercial Stamps which, consistent with the principles of Federal Finance followed in this paper, has been advocated for the Central Government. How then does the Provincial Government stand to gain by this exchange? First and foremost by the fact that income-tax is an elastic source of Revenue which the Liquor Excise is not. The healthier the Society, the more of personal and property income it shows and, therefore, the more of income-tax is available even though the rate be the same. Moreover, as needs expand and the tax-payer is convinced of a substantial *quid pro quo* in the shape of more progressive outlook for the Province—he will not mind



putting his hand into his pocket for general welfare. A healthy sense of rivalry may well grow between Provinces to contribute to the health, happiness and uplift of the population. An easily expanding revenue can be best provided for only through income-tax. Increase in Liquor Excise is, on the other hand, scarcely a matter of congratulation to the society that shows it as a growing head of income. It is true that at present they bulk largely in the Provincial Budget; but no Provincial Chancellor of the Exchequer is ever reported to have given his blessings to it. Once the Excise on Liquors is grouped with the rest of Excise on all Indian Industries that are capable of bearing it—and the Central Government has become the custodian of the entire field of Excise, Indian public opinion will help the Central Government—Finance Minister to decide whether all Revenue realised from the manufacture as well as imports of intoxicants can be sacrificed in the interest of prohibition. No Provincial Government, therefore, has a reason to shed a tear over giving up a dubious and slippery head of Revenue like Liquor Excise for a healthily growing and elastic head of Revenue like income-tax.

Taxes on all kinds of income and property, services within the orbit of Provincial functions like Irrigation-works, and monopolies like forests are then the principal heads of Provincial Finance. Regarding property, in an agricultural country nothing can be more handy for the purposes of levying imports than property in agricultural land. Therefore land revenue in India, as in most of the ancient countries of the world, has been perhaps the surest, the oldest and the most lasting asset in public Finance. When other kinds of property, *e.g.*, Industrial and Commercial, had not yet emerged or had at best occupied a very insignificant place in the economic life of Society, practically all the needs of Government had to be satisfied out of the Land and the Landlord. So great was the importance attached to this agency of production that ancient kingships, when they did not much insist on kingship with divinity, generally took the form of territorial kingship, first claiming the ownership of all land and then, par-

celling out a major portion of it among their immediate followers by some kind of Feudal tenures. The share of the State (*i.e.*, the King) in the product of the soil was a feature of all early Governments; but when people's representatives gradually earned the right of voting supplies to the King, this share in the product of the soil soon got merged with the rest of imposts and took the form of a tax on the income from land, and had got to be voted by the Legislature like any other supply. Later on, again, when the principle of progression in income-tax came to be generally accepted, income from agricultural land being treated as any other income, found the same principle of progression applied to it as well. This is what all countries acting up to the principle of equity in modern Public Finance have adopted as their policy in regard to incomes from land as from any other income-yielding property. India is the most notable exception to this reform. Owing to a persistence of despotic Governments the proprietary conception of the State lingered here much longer than anywhere else. If all that was in the country belonged to the Sovereign, land, of course, would not be an exception; but the only way to make it pay was by recognising the rights of others as well—either big landlords or small peasant proprietors or village communities; and this resulted in a sort of some definite share of the produce of the soil as perpetually vested in the State. The British Government of India inherited this state of things from the past; and even with the introduction of the budget system under which Finance Bills had to be passed by the Legislature, Land Revenue was withheld from the purview of the Legislatures and treated as an executive measure, from which paleolithic state of things the last Joint Parliamentary Report tried to lift up the Provincial tax-payer by recommending the Provincial Executive to approximate Land Revenue business to any other Legislative or Financial measure. We are now approaching that constitutional stage where Land Revenue cannot but be classed with any other tax voted by the Legislature. The Provincial Legislatures will then decide if and to what extent income from agricultural land is distinguishable

from other incomes and therefore exempted from the operation of income-tax,—whether, in other words, it is equitable to tax a big Zamindari of 50,000 acres at the flat rate of so many rupees per acre as is imposed on a holding of, say, only 5 acres or even less,—whether the tax-bearing capacity of all holders of land is to be measured by the same rate of imposts,—and whether, again, exemption at the bottom and some arrangement of progressive taxation at the top is to be extended to agricultural incomes as well. All such questions will have to be fairly and squarely faced by the future electorates that will be responsible for supplying *adequate* funds to their own autonomous future Provincial Governments. Prejudices die hard and privileges enjoyed for a very long time are not easily abandoned. But when once for all it is clearly realised by the autonomous Provinces of India that they have to live within their own and income-tax is the very tap-root of their Revenue system, they cannot but ask the big landed interest to bear their legitimate share of taxation. The Permanent Settlement of Bengal, for instance, cannot then stand a moment's scrutiny; but it will be fundamentally for the electorate of Bengal to determine this point. Perhaps the Landlords themselves may come to appreciate the value of the changed conditions. Tyranny is said to be a poor provider; but under Provincial Self-Government the Landlords as the most responsible class of citizens and as the natural leaders of the country, may easily realise the untenability of their position in this matter, and offer to bear equitable burden. In this connection the Report of the Indian Taxation Enquiry Committee is not quite discouraging. They have considered the Large Landlord as perhaps the most lightly taxed man in India in proportion to his income. This, as they say, has “led to one of the most important of the recommendations in the Report, namely, that some element of progression should be introduced into the contribution of this class”; which, according to the Report, may take the form of the imposition of the income-tax or something in the shape of general probate or Inheritance Duty. One member of this Committee, Sardar Jogendra Singh

has, however, a very pronounced attitude on this question. The separate minute submitted by him does great credit to his statesmanship and fair-mindedness. On this point of taxing agricultural incomes he says: "The principle of taxation should apply without any variation to the non-agricultural and agricultural population, bearing in mind that net income is the sole and immediate source of a tax, whether it is derived from land or from trade or from manufactures of raw materials." Theoretical justification apart, let us remember that need is always a valid cause of change against Historic Prescription.

To sum up. the changes proposed in this scheme of a Revenue System for India are—(1) the transference of 'Excise' on Intoxicants from the Provinces to the Central Government to bring all industry in one group and under one Governing body, and (2) to class income from land with income from other sources and treat all personal and property incomes as the Provincial source of Revenue under the heading of income-tax governed by the rules and regulations relating to the operation of income-tax, to be altered and adjusted from time to time by the Provincial Legislature in the light of the circumstances of the Province. To what extent the principles of exemption and progression can be rigidly and uniformly applied to all kinds of income, may be left to the expert financiers in the Provincial Legislatures to determine for themselves. The functions may vary in the Provinces; and it will also be necessary to make the fullest reference to the conditions of production and cost of administration of the area concerned. No uniformity need be contemplated, as no serious Provincial rivalries can be apprehended on account of slightly variable conditions governing incomes from agriculture in different Provinces.

Absolute segregation of financial fields and a clear cut separation of heads of Revenue for Provinces and the Central Government is the recommendation of this Paper. That principle was adopted by the Meston Settlement as well. The Provincial contributions for which it had made a temporary provision came to an end even before the scheduled time. The sharing of the produce of

any tax between two well-demarcated spheres of Government like the Provincial and the Central will generally lead to awkwardnesses and difficulties likely to affect the successful working of a Federal Government. The Legislatures of the two spheres of Government are distinct entities controlling their respective Executives. Every Financial demand of the Executive is scrutinised by the Legislature before the supply is voted. The demand, the vote, and the actual spending, all ought to come within the purview of one Government, as this arrangement, not only ensures the freedom of the Legislature to vote according to needs of its Governments, but further enables them to use the machinery of voting supplies as important constitutional means of controlling the policy of the Executive. If the Central Government imposes income-tax and makes the gift of a portion to the Provincial Government, at least to the extent of that much supply the Provincial Executive becomes independent of the Provincial Legislature, and looks elsewhere for favour or approbation. American writers who have the best experience of Federal Finance are very clear on this subject. So long ago as 1890 Adams wrote in favour of assigning separate sources of revenue to the different spheres of Government in the U.S. of America. "The general principle of segregated sources of revenue may be profitably applied, with more or less strictures, as between all the grades of Government that together make up the American State." Prof. Seligman again makes the following observations: "To have the Federal Government depend entirely upon largesses from the states is to render it more or less impotent, and certainly to make it subordinate to the states . . . . On the other hand, to make the separate states depend financially upon the Federal Government is to weight the balance in the opposite direction and is not, in the long run, desirable in the interests of a complete equilibrium." The Indian Taxation Enquiry Committee also would have an outright segregation of the heads of Revenue for the two (*vide* page 370 of their Report), if the Central Government-Revenue could be adequately provided for without an encroach-

ment on Income-tax. If they have had recommended the inclusion of Liquor Administration and Excise in the Central Group as is the case all over the world, income-tax could in their scheme too have been entirely released from the Central Group and assigned to its legitimate home—the Provinces. Liquor Excise would give the Central Exchequer nearly 20 crores of annual income for the 16 crores of income-tax surrendered by it; and thus let the Central Government be the sole protector and guardian of all industry in the country. By the transference of the income-tax to the Provinces in exchange for their Excise, the intensely agricultural provinces like Bihar, U.P. and the Punjab will, to start with, have a slight shrinkage of revenue; but when agricultural income which in these very provinces figures pretty prominently is brought into line with the rest of income under the operation of income-tax, the Provincial resources everywhere will soon leap upward and enable Provincial Governments to do their good bit in the direction of nation-building developmental functions. While the certainty of Revenue added by a little elasticity is all that is required for the Central Government, quick responsiveness of revenue is the essential characteristic of the finances of that sphere of Government (Provincial) which is largely concerned with developmental activities; and there can be no better head of revenue than income tax for meeting this condition of elasticity.

This scheme therefore suggests:—

- I. For the Central Government:—Customs and all Excise (including Country Liquors), Currency, Railway, Commercial Stamps, Posts, Telegraphs. (For Reserve fields—Succession Duties, Tobacco Excise.)
- II. For the Provincial Government:—Taxes on Income and Property (Agricultural Income included), Forests, and Irrigation, Judicial Stamps, Entertainment Taxes, Licenses and Registration Fees. (For Reserve fields—Corporation Taxes.)

# FEDERAL FINANCE IN INDIA

OR

## A PLEA FOR THE RATIONALISATION OF THE ' MESTON AWARD '

BY

D. G. KARVE,

*Professor of Economics, Fergusson College, Poona.*

### SUMMARY

The extinction of provincial contributions, far from having closed the problem of financial distribution, has helped to render the inequality of the present distribution more pronounced than ever. The so-called Meston Award, which in essence was the scheme proposed by the Mont-Ford Report, had not been based on any sound principle. In particular, the contrast between the principle of federation cautiously adopted in matters of political organisation and the continuance of the old financial system based on the joint family idea became more and more marked every day. The unequal distribution of the burdens of central administration between the various provinces caused much ill-will and retarded the progress of those provinces which had been unfavourably treated under the scheme. In particular, those provinces whose income was mainly derived from non-agricultural sources were crippled to the advantage of others which were mainly agricultural provinces. The arrangement by which taxes on agricultural incomes were left at the disposal of Provincial Governments and those on non-agricultural incomes were reserved for the Central Government, worked to the detriment of the industrial provinces. There is nothing in financial principle which would justify such varying treatment between the two taxes. It is time that the principle of federal finance were introduced in the country so as to bring about an equality of sacrifice between the citizens of India in

respect of their contribution towards the upkeep of the Central Government.

It is, therefore, proposed that the present financial distribution should be altered in the following respects. Income tax should be completely handed over to the Provincial Governments with the proviso that minimum rates of levy should be fixed by the Central Government, which should also be entitled to super-tax in respect of all incomes, agricultural and industrial, and to the ordinary income tax on protected industries. General stamps should be handed over to the Central Government. This rearrangement is calculated to bring about a deficit of about four crores of rupees in the budget of the Government of India. It is proposed that this should be absorbed by retrenchment or by the natural increase in the yield of the other sources of revenue. Failing this, it is proposed that the deficit should be covered by the levy of Provincial contributions based on the total taxable capacity of the various provinces. As a last resort the deficit should be covered by the levy of Death duties, which it is proposed should be transferred to the Central Government as a likely source of revenue along with the tobacco monopoly. It is, however, urged that financial redistribution should, as far as possible, be brought about without imposing fresh taxation. The Provincial Governments will be left with the following sources of future revenue: taxation of agricultural incomes and urban land values, and various entertainment and luxury taxes.

---

### Introductory

To many people interested in a study of the structure and method of public administration in India, the subject of the Meston Award may strike as an obsolete one; and if we concentrate our attention on the mere fact of the extinction of the much maligned Provincial contributions, such a feeling of relief entertained in some quarters may possibly be justified. But for those who realise that a sound system of finance is the first requirement of a progressive Government and who know that India has suffered untold woes in the past on account of many a mistaken step in the financial policy of the Government, an examination of the scientific merits and practical justice of the present scheme of



distribution of resources and liabilities between the Central and Provincial Governments is bound to possess immense attraction. That the various Governments in India are alive to the importance of this issue is evidenced by repeated references to this subject made in the budget speeches of a number of Finance Members and by the early presentment of numerous official notes in this regard to the Royal Commission, now sitting in judgment over the working of the whole of the Montague-Chelmsford scheme, including, of course, its financial counterpart, the 'Meston Award.' If the material and political progress of the country in the future is not to be jeopardised by too facile a faith in official wisdom or in the beneficence of what exists, an attempt must surely be made to assure ourselves that the financial aspect of political reform approximates as closely as possible to the dictates of science and practical experience.

### **Genesis of the Award**

A perusal of the official literature connected with the inception, development and adoption of the present scheme of financial devolution will not fail to bear out the remark, that the essentials of the so-called Meston Award are to be found almost in their final shape in the recommendations of the Mont-Ford scheme. A complete separation of the resources of the Central and Provincial Governments was the aim of its authors, but in keeping with the policy of least-resistance pervading the whole of the scheme, they did not consider it desirable at that stage to open up the entire question of the equity of the then existing distribution of financial burdens as between the various provinces. They contented themselves with a proposal for the abolition of all the divided heads. This palliative, which was calculated to bring about an administrative rather than a financial reform, left the fundamental principle unaffected. That fundamental principle was that the whole of India was to be looked upon as the unit of Government, a joint family or a single commercial firm, and that individual provinces were to make sacrifices for their less advanced brethren and were

to receive a bonus out of the earnings of their more fortunate co-partners. The authors of the joint scheme had, of course, foreseen that political autonomy conceded to the provinces not merely as a measure of administrative convenience but in recognition of their claims to separate collective development according to the wishes of their people, would be meaningless without an accompanying measure of financial autonomy. But they were keen on avoiding as many differences on fundamental principles as possible. In the financial as in the political sphere they had to make their scheme as acceptable as possible to their conservative opponents by making out that their proposals involved no new principle of departure from existing policy or at worst only a very minor one. This it was that led them to shut their eyes to the obvious incongruity between the existing financial system and the proposed political changes. They only recommended that a complete separation between Provincial and Central sources should be effected on a plan which would disturb the existing arrangements as little as possible. This approach to the problem naturally precluded all direct reference to financial justice and put up administrative convenience as the most obvious and immediate goal of financial reform.

The Provincial contributions were a direct outcome of this desire for a compromise between political principle and practical expediency. The separation of sources took the shape of an attempt to distribute the then existing divided heads between the Central and the Provincial Governments. No account could be taken of the fact that the distribution as then ordered was based on the principle, more or less, of the common heap. Even while distributing the divided heads, very little respect was shown for principle. The recommendation made in the scheme that general stamps should be considered a central head so as to secure uniformity in a piece of commercial legislation is perhaps the only instance where their financial conclusion is specifically based on an accepted principle. The authors observe: 'To sum up: we propose to retain the Indian and provincial heads as at present,

but to add to the former income-tax and general stamps, and to the latter land revenue, irrigation, excise, and judicial stamps. No heads will then remain divided.' To leave no head of taxation divided was their goal, and that they achieved almost by a rough and ready method, marking a few convenient heads as Central and the rest as Provincial, so as to reduce the resulting central deficit to as low a figure as possible. The proposal finally accepted as the best practical method to meet that deficit was significant. There was to be no going back on the *status quo*; the increased spending power which the provinces would enjoy as a result of the proposals regarding the distribution of sources was to be taken as the basis of Provincial contributions to the Central Government. This recommendation had, it was thought, the merit of not depriving any of the provinces of a single rupee out of their present earnings and of proportioning their sacrifices according to the bonus that they were to receive. The solicitude exhibited by the authors of the scheme to assure the Madras and the U. P. Governments of their sympathies was obvious. It was remarkable, however, that no mention was made of any injustice done to Bombay. Madras was sympathised with on account of the fact, that the proportion of its total revenue represented by the contribution was greater than in the case of Bombay. It was not thought necessary to refer to the question as to whether the total sacrifice that Madras as a province was making for the finance of the Central Government, that is to say, the sum total of all the central taxes borne by the population of Madras and the contribution paid by the Madras Government, represented a greater proportion of the income of the Madras population than the total sacrifice of the Bombay citizens and the Bombay Government. A comprehensive and scientific view of their financial proposals was impossible in the situation.

The Government of India in expressing their views on the proposals made in the Report exhibited no readiness to enter into the essential merits of the distribution, but contented themselves with forwarding for expert consideration the complaints received

from all the provinces. The Joint Select Committee also thought that an expert inquiry was needed, not of course to assess the justice of the basic principle, but the accuracy of the more or less hypothetical figures chosen by the writers of the Report. The task before the Meston Committee was, therefore, simply to suggest changes of detail in the light of the principle, or rather the lack of one, accepted in the Mont-Ford scheme. Even the trace of a principle in the original recommendations was removed by the one change that the Meston Committee made in the proposals contained in the Report. General stamps, which were allocated as a central head in the original report on the ground that uniformity is essential in a measure of commercial legislation were transferred to the Provincial Schedule by the Meston Committee. The reasons that they put forward in justification of this change are of interest in the present connection. That every province must start with a substantial surplus was the implied promise of the scheme. If the general stamps were left to be a central head, as recommended in the body of the Report, the poorer provinces, it was calculated, would be left without a surplus. To ensure a substantial credit margin on the transaction for all the provinces the Meston Committee recommended that general stamps should also go with the judicial stamps. There were some other considerations, of course, which were mentioned by the Meston Committee as justifying their departure but even they pointed to the same conclusion; namely, that between them the framers of the Reforms Scheme, the Meston Committee, and to an extent the Joint Parliamentary Committee, had made up their mind that so far as the organisation of the administration was concerned, there would be a complete separation of resources between the Central and the Provincial Governments and that the resulting deficit of the former, so long as it continues, would be met out of Provincial contributions based on the increased spending power and that any relief that might come in future would be distributed among the provinces on the consideration of the amount that they were then paying as a contribution and not of any other ulterior considera-

tion. To sum up, then, it may be said that no steps could be taken by the authors and the sponsors of the Reforms Scheme to introduce in their financial arrangements that principle of federation which they had cautiously accepted in their purely political recommendations and that they were content merely with the attainment of an administrative separation of accounts as their immediate goal. The Meston Committee, by the nature of its being, could not introduce a financial principle where there was none, and what little material change it made was in the direction of emphasising the *ad hoc* character of the financial arrangements then contemplated.

### Analysis of the Award

As indicated above, the framers of the scheme were quite conscious of the lack of principle or even the accentuation of injustice of which they were guilty. They, however, had to see the scheme through with as little opposition and friction, as possible. They, however, tried to appease their own financial conscience by indicating this part of their recommendations as a subject which was to be referred to the first periodical commission for constitutional revision contemplated by them. The relevant sentences in their report are interesting. They observe:

“ It should also be one of the duties of the periodic commission . . . to reinvestigate the question of the Provincial contributions to the Government of India. We have, for the present, accepted the inequality of burden which history imposes on the provinces, because we cannot break violently with traditional standards of expenditure, or subject the permanently settled provinces to financial pressure which would have the practical result of forcing them to reconsider the permanent settlement. But it is reasonable to expect that with the growth of provincial autonomy any inequality of burdens will be resented more strongly by the provinces on whom it falls; and it will be for the first

periodic commission and for its successors after review of the situation then existing to determine whether some period should not be set by which the more lightly burdened provinces should be expected to find means of bringing up their financial resources to the common level of strength. We attach great weight to the proposition that if the provinces are to be really self-governing, they ought to adjust their expenditure—including therein their obligations to the common interests of India—according to their resources and not to draw indefinitely on more enterprising neighbours."

This extract has a peculiar importance as it puts in a nutshell the inspiring idea of the present financial arrangements and indicates the real views of the authors of the Reforms Scheme regarding future development. In a sense it might be said that this sets the stage for the financial aspect of the present constitutional inquiry. It is necessary, therefore, to specify the exact significance of the obvious and the implied meaning of its terms.

- (a) At the outset it will be observed that an investigation into the question of 'Provincial contributions' was included in the functions of the first periodic commission. This suggests the suspicion that apart from the amount of the contribution, the question regarding the equity of the distribution of sources was to be considered as having been finally dealt with.
- (b) The writers of the Report accepted the inequality of burdens that then existed between the various provinces;
- (c) because, history, presumably the history of the financial relations between the Central and the various Provincial Governments was responsible for it; and

- (d) because, an attempt to equalise the burden of taxation as between the provinces would involve the necessity of cutting down the expenditure in the case of those provinces who had been favourably treated in the past.
- (e) Presuming that Bengal was a province so favourably treated and taking it for granted that income-tax was to be an entirely Central head, they seemed to argue that any additional burden on that province so as to equalise the sacrifice of the various provinces, would necessarily mean that Bengal must increase its revenues by enhancing the land revenue directly or indirectly and that that step would involve the revision of the Permanent Settlement. It appears that the authors of the Report would fain have that settlement reconsidered by the Bengal Government sooner or later, but would like to avoid any direct responsibility for that step.
- (f) They expect that the more heavily taxed provinces would resent their unfair treatment in proportion as they become more representative of the opinions and interests of their subjects and get over their long tradition of obedience to official mandate.
- (g) By referring to 'the first periodic commission and its successors' they also betrayed their expectation that it would take decades to reach a stage of financial equality between the provinces.
- (h) Further, they permitted themselves the expectation that the more lightly burdened provinces would tax themselves to bring their financial sacrifice to the level demanded by the canon of equality. They

did not care to indicate how, by taxing themselves to meet future liabilities, the favourably treated provinces were going to relieve existing unfair pressure on the rest;

- (i) and finally to round off a statement which was an apology for ignoring strict financial considerations they observe that they attach great importance to a proposition which, interpreted in the common language of the subject, would mean an enunciation of the principle of federal finance.

Anxiety to avoid the clear statement of a principle which is of vital importance to the course of future reform but which jars too roughly on the ears of interested and prejudiced parties, unwillingness to recognise the full practical significance of an accepted principle, an overwhelming desire to leave the past alone even though it may be essential to take it into serious account in introducing a present reform and a resignation to the beneficence of administrative drift are writ large in this part of the Report and in much of the official literature that has grown round the subject during the last decade. A multiplication of figures and statistics would be vain if we are not certain of the goal we are aiming at and if we are not prepared to follow with courage and sympathy the path that science and experience would dictate as the best under the circumstances. In an appendix attached to the present note an attempt has been made to indicate in rough outline how in practice federal finance would work in this country if introduced along certain specific lines. It is, however, less the intention of this note to work out a single scheme and press for its adoption at all costs than to state the most important characteristics of the federal principle in finance and to urge that these should forthwith be introduced in the constitutional arrangements of this country without, so far as possible, increasing either the burden of taxation or the injustice of the present financial distribution.



### Principle of Reform

The first essential of financial reform in this country is to accept unreservedly the principle of federation. That principle applied to financial as to political arrangements implies that the provinces are to be considered as the units of collective life except in specific cases where for reasons of national importance it is considered that the country as a whole must be looked upon as the unit. It is a feature of the historical growth of the Indian nation that consolidation has preceded devolution. It is, therefore, only proper, as conducing to convenience in administration, that the Central Government should be the residuary possessor of all functions of Government not specifically handed over to Provincial control. But this consideration connected with the framing of the constitution must not be allowed to influence our view regarding the relations that exist or ought to exist between the Central Government on the one hand and the several Local Governments on the other. This relation in the India of today and of tomorrow must be the usual federal relation. The functions, determinate and indeterminate, set apart for the Central Government, must be financed entirely out of Central revenues. Not only the present needs of the Central Government but any extraordinary items of expenditure like the conduct of a war, and all its normal liabilities in the future must be met out of resources specially earmarked for the purpose. In other words, there would have to be a schedule of taxes which would be open for use only to the Central Government. All the remaining sources of taxation must be left at the disposal of the Provincial Governments. In earmarking particular taxes and other sources of revenue as 'Central' care must be taken to see, as far as possible, that their use would not lead to unequal taxation. That is to say, it being understood that the Government of India is expected to give these many services to the nation at large the expenditure that it has to incur on that account must be borne equally, that is to say equitably, by all citizens in all provinces. The burden of the

Central administration taken as a whole and by itself ought to be distributed among the citizens as far as possible on the principle of equal sacrifice. The taxes collected by the Provincial Government for its own purposes must not be calculated while assessing the burden of all-India taxation. That field of public finance must be judged apart. This is the very essence of the federal principle. To take an extreme case it may happen that there is a province which believes in as little action on the part of the State as possible, and naturally spends very little on its Governmental activity. This certainly cannot be turned into a ground for taxing the people of that province higher than another province, which, say, spends a lot more on its government as it supports more or less the State Socialist creed. The finance of the Central Government must be judged in itself. While we indicate some taxes as Central, they must be such as would, when taken collectively at any time, bring about at least a rough equality of sacrifice among the citizens of India. All other sources of revenue must be left at the disposal of the provinces to be used at the discretion of their own peoples and Governments.

On the expenditure side also the federal principle has some unmistakable conclusions to point out. That India as a nation must continue to exist and to grow is accepted. For that reason it might be necessary not only to clothe the Central Government with essential functions like defence and currency legislation, but also in matters of less vital yet of nation-wide, even international, importance, like Labour legislation or anti-opium measures, to call upon the Central Government to bring about uniformity of conditions by its action. There may be various other functions which may be mentioned as suitable to the Central Government because it is desired that in respect of them conditions all over the country ought to satisfy at least a minimum standard. The point that is intended to be pressed in this connection is that, leaving the Central Government free to work out its constructive and restrictive measures, of an essential, educative or reformatory character, on a uniform basis all over the country, the provinces must also be

left free to pursue according to their inclinations and resources, their course of public action. This would necessarily mean that, while in respect of departments administered by the Central Government there would be a rough uniformity of conditions between the various provinces, in the field of the Provincial Government different provinces would register different records of the extent and efficiency of public action. This is bound to follow from an acceptance of the principle of federation, at present shrouded in the rather ambiguous name of provincial autonomy. Provincial autonomy would mean precious little if all that the Provincial Governments have to do is to work out the details of a policy settled for them by the Central Government and if they are not to be left entirely to themselves to work out their destiny with the aid of the resources at their disposal. To talk of Provincial autonomy and uniformity of progress in the same breath is absurd. Equally absurd is the suggestion that the standard of expenditure can continue to be the same in all provinces irrespective of their resources and opportunities. For revenue as for expenditure, it must be clearly understood that India as a whole is not going to be the unit, except in the case of the subjects specially marked for action by the Central Government, and that the provinces are free to do what they can afford. The family or the business firm notion of the past must be deliberately and finally discarded in favour of the genuine principle of federation.

For purposes of scientific treatment, the functions and the burdens of Central Government must be distinguished as a unit from those of the several Provincial Governments; though it must be admitted that within the limits of each there might be individual items which may not satisfy the essential canon of equality. 'Equality of treatment as between one province and another must be reached so far as it is possible in the settlements as a whole, and it is not possible to extend the principle of equality to individual heads of revenue.' This is a very correct remark made in the course of the Mont-Ford Report; but it is likely to be

forgotten, as probably has been the case with many, that the truth of the latter part of the statement is governed by the acceptance of the former, and that the former commits the framers of the scheme to realise equality of burdens as between the various provinces in respect of the settlement of Central revenues taken by themselves, and not of those taken along with Provincial revenues and expenditure, which ought to constitute a separate financial unit. This consideration and a faith in the beneficence of truth rather than of drift must accompany us while judging the facts and merits about the present financial distribution in India.

### **Lines of Reform**

Apart from the commercial services of the Government of India which ordinarily are regulated by the usual business principles, the main sources of Central revenue are as follows: Customs, Income-tax, Salt and Opium. Opium is a source which for the purpose in hand may very well be ignored, both because it is gradually dwindling into insignificance and because it does not raise the question of relative burden on the Indian tax-payer, most of it being paid by the foreign purchaser. The revenue derived by the Government of India from its salt monopoly has a peculiar characteristic in regard to its incidence. It is a tax on an article of necessary consumption for which the demand is fairly inelastic. As such it tends to be paid in equal amounts by the rich and the poor and to be regressive in its effects. Its use in industries and in agricultural and semi-agricultural pursuits may be taken as offsetting one another in respect of relative equality among the industrial and the agricultural producer. The remaining and of course the main heads of Central revenue are Customs and the Income-tax, these together bringing in a revenue of over sixty crores of rupees. 'Is the burden of these two taxes equitably distributed among the various classes of the Indian nation?' is the chief question regarding the present financial arrangements between the Central and the Provincial Governments in this.

country. The answer to this question is obvious and may be stated without a multiplication of figures. Income-tax is paid mainly by two classes, the professional and the industrial. The professional class includes permanent servants of the Government and of private employers, doctors, lawyers, journalists and a few others. The industrial class includes the merchants, the brokers, bankers, and factory owners and various other industrial producers. These as a class represent a very small proportion of the population and the wealth of the country. The Customs revenue is for the most part derived from import duties levied on such articles as piece goods, yarn, sugar, iron and steel, machinery, motor cars and hardware. To put it roughly, the consumers of these articles are the persons on whom the burden of import duties mainly falls. These consumers, as far as can be reasonably ascertained, are mostly those very classes who are amenable to the income tax, though it is not intended to deny that directly or indirectly all classes bear some burden which is attributable to the tariff. In effect, therefore, the position regarding the burden of Central administration is this: that the payers of income-tax and the consumers of foreign goods bear the main share of that burden. As between the various classes in the same province this extra pressure on some classes can be compensated for by the arrangements of Provincial taxation, so that taking the people of a province as a whole the burden that they have to bear on account of Provincial and Central Governments would be equitably distributed among them. But as between the various provinces themselves no such compensation is possible. The net effect of central taxation is, therefore, highly penalising to those provinces, the income of whose people is more amenable to the income-tax and whose people are more of consumers of foreign articles. The fact is obvious, that there is a rough distribution of Indian provinces as industrial and agricultural and hence to secure financial justice between them it is essential that public revenues derived from both the agricultural and the industrial sources should be treated on the same basis. If land revenue is to be a

provincial head financial justice demands that income-tax also must be the same.

Two objections are likely to be urged against the proposal that income-tax should be *completely* a provincialised source. We will be confronted at the outset by the argument that the incidence of income-tax must be traced back to the customers of the industrial producers and that the province where the industrial income is received is not always the province where it is earned. Both these arguments are, however, utterly pointless. The pursuit of ultimate incidence of a direct tax is merely an academic exercise, subject to so many varying and ever changing conditions that it would be highly inadvisable to draw any practical conclusions from the same. Moreover, supposing that such a pursuit were to be made the basis of our inquiry, who can say that all or even most of the present provincial sources of revenue lead no further than the provincial tax-payer? Can it be confidently asserted even of that 'stable' of all taxes, the land tax, that its burden in *all* cases is borne by the producer and in no sense or degree by the consumer? The statement that because an industrial establishment is situated in a province other than the one in which its owners reside, the earnings of the concern should be taxed neither by the province in which the concern is situated nor by the province in which the owners reside but by a third party altogether, the Government of India, is, to say the least, very curious and unjust. Problems of double taxation are inseparable from all systems of income-tax and in so far as they are soluble, a proper solution could be found for them. Further, it is urged that income-tax affects the net earnings of industries and, therefore, their location, rise and fall. To an extent, this is correct, but not so in a measure so as to affect the inquiry into the best method of distributing the sources of revenue. Nearness to raw materials and motive power, supply of cheap and efficient labour, proximity of a market where competitive sales might be effected, these are far more decisive factors in the location and fortunes of industries, than a system of taxation which, when all is said and done, comes

into operation, when the incomes are actually earned. It must further be pointed out that inter-provincial competition in regard to rates of income-tax can be prevented by fixing minimum uniform rates for them. When industrial incomes are the result of a special protective measure on the part of the Government of India, the claim for central taxation of the same is indeed more reasonable, and will have to be allowed for in any scheme for financial distribution.

The main taxes to be considered for present distribution between the Provincial and the Central Governments are as follows:—Land Revenue, Excise, Stamps, Salt, Customs, and Income-tax. So far as can be reasonably judged at present, the taxes available for further exploitation are, the tobacco monopoly, death duties, taxation of agricultural incomes, taxation of land values in urban areas, and varieties of entertainment and luxury taxes. It seems to be the view in some quarters, particularly the official quarter, that any improvement on the present system of distribution would be unthinkable without some further taxation on the part of the Central or Provincial Governments or on the part of both. The extract quoted from the Montague-Chelmsford Report gives some ground for the belief that such was the anticipation of the framers of the original scheme. If, however, tax reform were to be synonymous with an increase in the burden of total taxation and in particular of Central revenues, the taxpayer may well exclaim that the remedy is worse than the disease. The present level of taxation in India is heavy, relatively to the average income of the tax-payer, to the efficiency of Government service and to the standard of peace-time expenditure. Any increase, therefore, in the burden of taxation with the present level of national production and the extent of Governmental functions is not to be lightly thought of. There ought to be a better distribution of taxes that are at present exploited, independently of another equally satisfactory distribution of prospective sources as well. It is therefore proposed that from among the present sources, above referred to, others remaining

unaffected by the present proposal, land revenue, judicial stamps and excise, should be wholly Provincial. Income-tax, except in the case of protected industries, should normally be treated as a Provincial source of revenue. Customs duties, salt tax, general stamps and the taxation of the income of protected industries should be treated as Central sources. In addition to these, special taxation of incomes, derived from whatever source above a particular limit, say 50,000 rupees a year, on the excess over that amount, should be treated as Central revenue. Such a course would no doubt be open, in a degree, to some of the objections that are urged against the centralisation of the ordinary income-tax. But taking into consideration the fact that the proposed change applies to incomes derived from all sources and that it operates in the case of extraordinarily high incomes, it is presumed that the principle of minimum collective sacrifice will support the proposal without violating the principle of equity. To the extent to which high agricultural incomes are not at present taxed, additional taxation would be involved in the proposal here made. This is a departure from an ideal solution. But most people will agree that the taxation of high agricultural incomes is overdue. It must also be pointed out that those provinces which would be making an additional sacrifice on this account will at least be compensated by the returns of the income-tax that they will receive. Regarding future sources, death duties and the tobacco monopoly should be reserved for the Central Government. The introduction of death duties in India involves very serious legal and economic issues and they are best left to be solved by the Central Government. Tobacco monopoly will be unworkable except if administered by the Central Government. It is needless to observe that in cases of purely revenue tariff which is calculated to have a seriously restrictive effect on trade, the liberty to levy a countervailing excise must be assured to the Central Government. It is obvious that taxation of agricultural incomes, even otherwise than under the present land revenue system, and of urban land-values must belong to the Government which administers



the usual land and income taxes. Taxation of luxuries and entertainments is too small and local a matter to be left to the Central Government.

The immediate effect of the suggestions made above would be that all provinces will have to give up general stamps as a source of revenue. They will, however, receive the proceeds of the normal income-tax. The Central Government will receive a new source in general stamps. As regards income-tax, it will have to part with all its normal yields, excepting in the case of protected industries and high incomes. Such an arrangement would, of course, mean no hardship for the Provincial Governments, who would in fact gain considerably. The Government of India will, however, be faced with an immediate deficit of about four crores of rupees. This deficit is likely to be only a temporary one, as the normal increase in the yield of existing sources will be able to wipe it out in the near future. So long as this deficit actually continues, it should be met by means of Provincial contributions. This suggestion is no doubt calculated to raise opposition. But the fact that all the provinces would be gaining on the income-tax ought to reconcile them to a further spell of Provincial contributions. Provincial contributions taken by themselves do not constitute a serious draw-back in federal finance, so long as the principle of distribution of the burden is federal. It is, therefore, proposed that the deficit of the Central Government so long as it continues on the present basis should be met out of Provincial contributions, based on the assessed total wealth of the province. It is agreed that any accurate calculation of Provincial wealth, with the help of the present industrial statistics, is a problematical matter. Still if the basis chosen for this calculation is the combined yield of the land revenue and the income-tax, a sufficiently equable basis for the distribution of the burden of the Provincial contributions would be secured. If the powers that be decide that any restoration of the regime of Provincial contributions is unthinkable, it would be better to make good the deficit by instituting death duties than to persist in

the present scheme of financial distribution which is regrettable in history, indefensible in theory and harmful in practice.

## APPENDIX

*Abstract of Changes consequent upon the Acceptance of the  
Recommendations made in the Note.*

## REVENUES OF THE GOVERNMENT OF INDIA

	Rs. (Crores)	
<i>Deduct</i>		
Taxes on income ...	16	
<i>Add</i>		
General stamps ...	5	
Super tax <sup>1</sup> and income-tax on protected industries ...	7	
Total Deficit .. ...	4	to be met by (1) normal increase in other sources or by re- trenchment or by (2) Provin- cial <sup>2</sup> contributions 4 crores or (3) Death Duties 4 crores.

---

<sup>1</sup> Super-tax will be calculated at the present rates on all incomes industrial and agricultural above Rs. 50,000 a year. Rates of ordinary income tax will be uniformly fixed at a minimum by the Government of India.

<sup>2</sup> Provincial contributions will be divided among the various provinces in proportion to their taxable capacity to be ascertained on the basis of the combined Land-revenue and Income-tax returns. In provinces where Permanent Settlement prevails in part or as a whole, special figures, weighted suitably, will have to be collected.

# THE ECONOMICS OF GRANTS-IN-AID

BY

V. G. RAMAKRISHNA AYYAR,

*Sri Minakshi College, Chidambaram.*

The general principles of local finance are the same as those of national finance, but certain differences of method and administration rather than of principle can be noted between local and national revenue.

It is possible to trace a direct connection between payment made and value received when taxation affects comparatively few people. So a certain benefit or *quid pro quo* element is to be found sometimes in local finance though the establishment of the fact is not justification of the principle. Sometimes a distinction is drawn between 'onerous' and 'beneficial' expenditure of local authorities, the former being of national, and the latter of immediately local advantage. It is argued that costs of 'beneficial' services should be met by local authorities, but sometimes national and local benefits so interpenetrate as to be often difficult of being distinguished. Another feature of local finance is, local financial systems are not uniform all over the country; they vary from country to country with geographical conditions, historical circumstances, and political traditions and also vary from time to time even in the same country as the efficiency of local authorities changes; and so, in the absence of balancing factors as grants-in-aid, there may arise the anomaly that relatively poor districts may be in a position of disadvantage than wealthier districts.

Grants-in-aid are the contributions from the national revenue to local expenditure. Local development and improvements are matters of national importance and it would therefore be a mistake to make a hard and fast distinction between local and national finance. The scope and activities of local bodies are widening and local authorities are therefore justified in demanding financial assistance from the national revenue. The whole question of local finance is complicated by the differences in the efficiency of local bodies, the variations in their resources and the variety of their services. A part of the funds is drawn from the localities concerned and the remainder is obtained in a variety of ways from the general revenue.

Two problems present themselves in connection with grants:

(1) Should grants be given at all?

(2) If they are given, on what principles should they be based?

As regards the first question, several reasons may be assigned to show why grants are necessary. In the first place, many services undertaken by local authorities are of great national importance and grants should be paid when a local authority takes up a developmental work of national importance. Grants are necessary where the local body is incapable financially of carrying out its proper functions. They may provide a stimulus to local authorities to undertake necessary functions and thus wean them from stagnation. Another important feature of grants is that they help to reduce the inequality of burden as between one district and another, provided they are judiciously distributed. Grants are the only means of bringing to bear upon local bodies the wisdom and experience of the Central Government and of enforcing on local authorities the necessary standard of efficiency so essential to national interest.<sup>1</sup>

<sup>1</sup> Webb, *Grants-in-Aid*.

The chief objections to grants-in-aid are the difficulties connected with fair apportionment between various localities, the difficulty of effective control over local expenditure, the possibilities of extravagance and want of initiative on the part of the local authorities. But these difficulties can be minimised by defining more or less clearly the financial relations of local bodies.

As regards the second problem—the problem of the principles on which grants should be allocated—presents many difficulties. In England large sums are distributed annually from the Central Exchequer in the form of grants-in-aid to local authorities for specific purposes. These grants have developed during the last 100 years. In England Lord Goschen's reforms of 1888 to limit the demands on the general taxpayer and to encourage local economy by giving certain assigned revenues to the local authorities did not meet with much success. The system of assigned revenues was practically abandoned in 1910. The Geddes Committee on National Expenditure remarked that up to 1913-14 many fixed or *per capita* grants were given on behalf of specific services and they have now been largely replaced by the percentage grants. The percentages vary from 20 per cent to 70 per cent, the most frequent figure being 50 per cent. It is said that the percentage grant system serves to stimulate local bodies to improve the efficiency of their services.

According to the Geddes Committee, "the vice of the percentage grant system is that the local authority which alone can really practise economy in these services loses much of its incentive to reduce expenditure especially when the larger proportion is paid by the taxpayer through the Exchequer. The deciding voice as to what money shall be spent is not that of the Government or the House of Commons but that of the local authorities. The Departments are thus in great difficulties in framing estimates, for these are based on anticipations not of what the Department itself will do but of what hundreds of local authorities may do. The weakness of divided responsibility is manifest throughout . . . . . We consider that percentage grant system should be

abandoned in the interests of economy and be replaced by fixed grants or by grants based on some definite unit."

These criticisms of the Geddes Committee have much force but it would be a mistake to assume that all increased expenditure on such things as education, public health, etc., necessarily implies extravagance. The recommendation of the Committee that fixed grants should generally be given is on the whole sound. In India till recent years the same principle which the Geddes Committee seek to emphasise was universally accepted, *e.g.*, in Education local authorities were made responsible for providing Elementary Education and the liability of the Government was confined to supplementing the resources of those bodies. This policy has in practice been abandoned in several provinces.<sup>2</sup>

In many European countries there is in general no complete separation of sources of revenue, though there are differences of detail due to historical circumstances and geographical conditions.

In India local authorities have developed their powers by a gradual process of devolution of powers by the Provincial Governments and the latter still exercise a greater control over them than is the case in other countries. Under the Government of India Act (1919) the Provincial Governments are still responsible for the services of the local authorities. We shall consider here some of the issues that are involved in the allocation of resources between the Provincial Governments and the local bodies. It is not necessary to go into the details of the nature of the changes introduced into the financial relations between local authorities and the Provincial Governments by the reforms of Lord Mayo and Lord Ripon, and the Decentralisation Commission of 1912. The Indian Taxation Committee (1925) examined the existing and potential resources of local bodies and concluded that local authorities will require to be supplemented by subsidies. In

<sup>2</sup> Government of India Occasional Reports. Grants-in-aid to Schools in British India (1923).

India, State assistance to local authorities is given in the following ways:<sup>3</sup>

- (a) Provincial administration of services or portions of services recognised as local.
- (b) By grants representing the cost of certain items of expenditure relating to particular services.
- (c) By Government making local bodies as their agents for particular services and meeting the cost.
- (d) By block grants.
- (e) By grants proportional to total expenditure, particularly in respect of education and medical relief in many provinces.

The general principles emphasised by the Committee on this question are that (1) subsidies should ordinarily be restricted only to services of national importance, (2) they should be granted in a manner which will enable the Provincial Government to insist on efficiency and (3) they should be granted on some uniform and intelligible plan in such a way as to enable a local body to adjust its expenditure and its receipts from tax revenue and grants.

The main cause of the poor finance of local bodies in India seems to be that their financial relations with the Government have not been clearly defined. Local self-governing bodies were first called into existence half a century ago with the primary object of affording the people a training ground in the government of the country and from time to time responsibilities were added to them. These local bodies at first functioned with their slender resources supplemented by doles from Government. The need for defining the financial relations between the Government and the local bodies led the Madras Government to appoint a Committee in 1920. This Committee surveyed the possible grounds of developing the resources of local bodies and made recommenda-

<sup>3</sup> Indian Taxation Enquiry Committee (1924-25) Report (pp. 414-415—Reprint).

tions but no action was taken as it was just then the reforms had been introduced and the Meston award had made it difficult for Government to afford much financial relief to local bodies. Local administration in the Madras Presidency covers various national and semi-national services which by the exigencies of provincial finance have been committed to the care of local bodies. It is open to local bodies in this province to expand their services but their resources are hopelessly inadequate and it is therefore difficult for them to have a better standard of administration. The local bodies have been affected by the rise in prices and the cost of living in recent years.

In this province, an attempt has been made to replace uncertain doles by recurring subsidies for some national services. Grants for non-recurring purposes are also given but minor works of local importance are left entirely to local bodies. In the case of municipalities the recurring grants are paid by the Government for such services as, maintenance of trunk roads, elementary education, secondary schools, medical relief, municipal health officers. In the case of local boards grants are paid for trunk roads, second class roads, elementary education, secondary education and medical relief. No grants are given to municipal councils for purposes other than major water supply and drainage scheme, and in the case of such major schemes, the Government contribution is one-half of the cost of the scheme. Grants are not allowed for the upkeep. Half grants are paid for medical buildings and buildings for secondary schools. As regards local boards, full grants are generally given for bridging main lines of communication and half grants for less important roads. Discretionary grants-in-aid are given in cases where boards are unable to make both ends meet even after levying taxes at the maximum rate.

It is clear that subsidies seem to have in the past been made on no definite intelligible or uniform standard to enable local bodies to carry on their work. The Indian Taxation Enquiry Committee have given some figures to show the percentage of



provincial grants to total expenditure on education, medical relief and civil works for district boards in the various provinces. Madras 43 per cent; Bombay 67 per cent; Bengal 27 per cent; Bihar & Orissa 20 per cent; Assam 42 per cent; Punjab 40 per cent; United Provinces 33 per cent; Central Provinces 62 per cent.

The following table gives some interesting figures showing the relation of grants to total expenditure in some municipalities and local boards in the Madras Presidency.

Name of Municipality or Local Board.	Total Ordinary Expenditure.	Government Grants and other Contributions.	Percentage of column 3 to column 2.
1	2	3	4
	Rs.	Rs.	
Madura ... ..	7,57,144	50,334	7
Trichinopoly ... ..	5,64,866	16,259	3
Cocanada ... ..	1,78,189	16,998	10
Coimbatore ... ..	2,51,909	28,968	11
Dharapuram ... ..	57,765	3,151	5
Mangalore ... ..	1,23,304	14,195	12
Cuddalore ... ..	1,42,993	13,624	9
Kurnool ... ..	1,11,449	26,372	23
Local Boards.	Rupees in lakhs.	Rupees in lakhs.	
Salem District ... ..	11.42	2.84	25
Kistna District ... ..	18.60	4.99	27
Madura District ... ..	9.17	2.62	28

The expenditure of the local bodies in India is bound to grow with the normal development of their public services. It is a question as to how far their expenditure should be met by taxes. It is said that much of their expenditure should be met by taxes

on immovable property within their areas in order to create in them a sense of responsibility and in the case of the municipalities, it is suggested to have a small addition to the income-tax collected from the inhabitants of the town. But a considerable part of the expenditure of local authorities for education, sanitation, maintenance of roads, etc., which are also of national importance, has to be defrayed out of general revenues. Such grants should of course be earmarked for the specific purposes with guarantees that money is properly spent and the services rendered are quite efficient. As the scope for local taxation is very limited in India, there is no doubt that in the province of Madras, at any rate, the funds necessary to finance national services in any local area should be borne wholly or in a much larger proportion by the general taxpayer. The location of such services, as roads, bridges, etc., demands their being performed only by and through local bodies whose resources are very limited. For instance, the classification of roads as trunk roads, district roads and other means of communication is based not on the services rendered but on the financial exigencies of the central authority. What is true of roads is equally true of other services of local bodies most of them belonging really to the category of national or onerous duties. The existing classification of national and semi-national services needs readjustment under such heads as Communications, Education and Public Health. The observations of the Financial Relations Committee (1920) in paragraphs 32 to 45 of their report regarding grants from provincial revenues in aid of local authorities are quite sound.

At present district boards and municipalities have not the resources to function to the best advantage of the community and their receipts from taxation have to be supplemented by grants. To secure a proper basis for granting subsidies to local bodies it is necessary to make a detailed examination of the conditions in which they now function, and a reclassification of the services rendered by them. With regard to the control to be exercised by the Government over the expenditure of the grant, we will do

well to remember the wise words of the Financial Relations Committee: "It is the duty of the Government to insist that all grants from provincial funds are spent to good purpose. Failure in this would be a grave disservice to the general taxpayer, but meticulous interference with a local body's freedom is likely to defeat its own end. The theory that increased subventions should be accompanied by increased control was discountenanced by the Decentralization Commission, and rightly so. Control over the details of administration is contrary to the spirit of recent legislation. Control is necessary, but we would confine it generally to the scrutiny of broad results, and it should be made effective by financial pressure rather than by executive order. No grants should in our opinion be sanctioned, except on the clear understanding that the Government are at liberty to reduce or withdraw them, if the services for which they are intended are not efficiently administered."

---

# FISCAL RELATIONS BETWEEN THE INDIAN STATES AND THE GOVERNMENT OF INDIA

BY

B. TIRUMALACHAR,

*Maharaja's College, Mysore.*

## SUMMARY.

An attempt has been made in this Paper to discuss the general principles of Inter-State Finance and of the allocation of Public revenues between the various tax-jurisdictions. The fiscal relations between the Government of India and the Indian States in general and the position of Mysore in particular with regard to certain matters of common interest such as Customs, etc., have been described. It is pointed out how the want of organisation for joint deliberation and joint action in matters of common concern between the Indian States and the Government of India has put the interests of the former into the shade. A scheme which has as its ultimate goal, a Federated State of India, has been adumbrated to solve the problems connected with relations—political as well as economic—between the Government of India and the States; and a machinery such as an Inter-State Fiscal Board has also been suggested to deal with matters of immediate concern. The methods which such a machinery will have to employ in the case of the distribution of customs revenues, as also the basis of such distribution have also been described.

It follows that the crux of the whole problem lies in the fact that the economic interests of the India States have not been receiving as much attention as they ought to, at the hands of the Government of India. It is obvious that the States are closely concerned in any fiscal policy which might be adopted by the Government of India; for, enclosed as they are within the limits of the Indian Empire, their interests cannot be sharply distinguished from those of British India. The neglect of the interests

of the Indian States which cover one-third of the territory and contain about one-fifth of the population of the Indian Empire cannot but react on those of British India itself. The Government of India has a dual function to perform: on the one hand, it is directly concerned with the administration of British India, while on the other it has to watch over the interests of the Indian States. It is earnestly hoped that the Government of India will act fairly, equitably and with a single eye to justice, in dealing with the problems arising out of the inevitable relations between the Government and the Indian States, and not allow the interests of the latter to be controlled as hitherto by the British Indian electorate or the British Indian Legislature in which the Indian States have no voice or representation.

---

## 1. PRINCIPLES OF INTER-STATE FINANCE

The existence of several spheres of Government, Central, Provincial and Local or Federal, State and Local with their concurrent and competitive tax-jurisdictions, has been a source of acute difficulty. The problem has become complicated with the development of constitutions and growth of economic life. The division of functions and powers between the various spheres of Government has as its natural concomitant the distribution and allocation of the various sources of revenues. The parallel movement of integration and differentiation of functions in the political system has brought out the weakness of the tax-systems and has rendered the readjustment and rearrangement of the fiscal relations a matter of necessity. A search for the principles according to which the allocation of revenues is made in various countries of the world will throw light on the constitution-making of India. In no country, however, is the distribution of taxes based upon pure considerations of theory. The systems adopted by the different constitutions have been moulded by past history, the people's psychology, religious influences and relation to neighbouring States.

From the Indian point of view the subject of fiscal relations has assumed very great importance. The distribution of the re-

venues between the Central Government and the Provincial Governments has been declared unsatisfactory and the question has been referred to the Royal Commission on Indian Reforms. Similarly the financial relations between the Native States and the Government of India have also been considered as lacking in system and uniformity and the problem is being tackled by the Butler Committee. Apart from the immediate solution of the question of the fiscal inter-relations between the Government of India and the Provinces of India on the one hand and the Native States on the other, there looms in the distance the goal of a federation of India in which the Provinces and the States will have to find a place as Constituent members. In Federal India the fiscal relations will have to be readjusted and the financial powers redistributed and the sources of public revenue re-allocated among the component parts and the central authority. A common and comprehensive formula therefore must be devised in which considerations of equity and economy, history and expediency, adequacy and efficiency will be given their due importance.

The problem of fiscal relations between the Government of India and the Native States will be considered from two points of view: first the existing relations, their classification, and the financial consequences for the Native States and secondly the future relations when India under the British Crown comes to be federated and the Native States become parts of Federal India. The two points of view have one thing in common, namely, the existing relations, no less than the future relations can be brought under the general principles of federal finance. The most important Native States *vis-a-vis* the Government of India now occupy and with some modifications will also occupy in future a position of autonomy or semi-sovereign status and lay claim to a treatment more or less on a basis of equality in matters fiscal and financial.

The pivot on which all federal finance turns is the allocation of revenues as between the federal authority and the federated units. The allocation is brought about in practice by several

methods, not mutually exclusive, but supplementary to one another. The States or Provinces that unite in a Federation generally start with a separation of the sources of revenue and the line of division between the Federal sources and the State sources is drawn between those matters which are of importance to the economic unity and political integrity of the whole country and those matters which are best administered by the component parts of the federation. All consumptive taxes, both customs and excise, are almost universally federal the reason being that there should be uniformity in all things affecting trade and business within the country and that there should be no interference in the operation of free commerce by the member states for their own particular benefit and to the disadvantage of the whole country. The same argument applies to taxes on transactions taken in the shape of stamp duties. In the field of direct taxation the position is not so clear. Before the War the Federal Governments did not resort to direct taxation since their revenue from indirect taxation was sufficient for their needs. But since the War the taxation of income has become an important feature of federal finance either on account of the urgent need for fresh resources or by reason of the difficulty of administering a personal income-tax over any area smaller than that of a whole country. A pure system of complete separation of taxation, however, brings its own difficulties because there is no guarantee that the system will give both parties sufficient for their needs. There may be an excess in the one case and a deficiency in the other. To meet this situation the expedient is either to divide the proceeds of the most productive federal sources such as the customs or to give subventions as is done by the Union of South Africa to the Provinces, or by the Commonwealth of Australia to the States or the Dominion of Canada to the Provinces. There is no system of distribution of revenues which is worked out from first principles. But all the systems each in its own way and each with individual peculiarities conform to fundamental principles: taxes which have the widest basis, which require uniformity of administration and

which affect general interests of the country as a whole are assigned to the federal authority, such an assignment being corrected in the case of inequality or inefficiency by a sharing of the revenue or by a system of subsidies, subventions and contributions.

## 2. FINANCIAL RELATIONS BETWEEN THE INDIAN STATES AND THE GOVERNMENT OF INDIA

Directly and indirectly, the subjects of the Indian States have been paying a large sum to the British Government without receiving a corresponding compensation. The various channels through which the resources of the Indian States are finding their way out will be described and a case made out for the participation of the revenues of the Government of India to which their subjects contribute.

**Customs Revenue:** The most important and the most complex of the problems connected with the fiscal relations between the Indian States and the Government of India is that of the customs revenue. At a glance one would hardly think that there is a problem at all; for it is a plain and uncontroverted principle of Public Finance that the customs duties are paid in the main by the subjects of the Government which levies them and that the customs revenue should form part of the income of the Government the benefits of which accrue to the subjects thereof. In India however, for the levy and collection of the customs, the whole country—British as well as Indian—is taken as one unit, so that the subjects of British India and those of Indian States pay the duties on the articles they consume, but the proceeds of the customs revenue belong almost wholly to British India. Obviously this is an anomaly. There is no justification for the Government of India to levy customs on goods consumed in the Indian States when it does not share the yield with the sister Government.

Further the claim of the Indian States for a part of the proceeds of the customs duties is supported by the surrender of their right to levy transit duties. The surrender was made com-



pletely on the part of some states and conditional on the part of others in response to the appeal of the Government of India, who rightly condemned the transit duties as hampering the growth of commerce and the development of industry. But their abolition which involved a considerable loss of revenue to the States was not accompanied by any compensation to them from the Central Exchequer.

The States did not complain so long as the Government of India followed a policy of Free Trade. But slowly and by measured steps it has advanced from absolute Free Trade, to a levy of duties for the purposes of revenue and then to a policy of "Discriminating Protection"; and the last stage which looms in the future, would appear to be one of thorough-going Protection. Up to 1894, the duties, such as they were, were only nominal. From 1894 to 1910, the duties did not exceed five per cent which came to be considered the conventional rate. A few years before the Great War, the duties showed a tendency to rise and during the War, the tendency became more and more marked. At the end of the War, the Government of India radically altered their policy and raised not only the existing scale of duties, but also added new articles to the Tariff. The change between 1884, when the customs revenue was a paltry sum of one crore of rupees and 1926 when the receipts from customs mounted up to about 46½ crores, could only be considered as phenomenal. In fact, the customs revenues form the largest single item in the revenues of the Government of India. The people of the Indian States who are consumers of the dutiable articles have materially contributed to this growing revenue, while the Governments of these States have been deprived of a share in it. The customs duty thus operates as an enforced levy on the people of the States who are compelled to pay it in the shape of a rise in prices.

The subject is really one of joint concern between British India and Indian States, though it is not acknowledged or acted upon as such. The Indian Fiscal Commission was appointed without consulting the States. The policy of "Discriminating Protection"

was adopted without considering the interests of the States. The Tariff is framed by the Indian Legislature in which Indian States have no voice. It really amounts to Taxation without representation: the people of the Indian States pay the customs duties which are levied without their consent and in the yield of which they are not given a share. In fact even from very early times, the Indian States have been treated as "foreign territory" for purposes of the levy of those duties, though not for the purposes of the payment of those duties, as for instance in the Sea Customs Acts of 1863, 1878 and 1894.

Recently the revival last year of the Vinnamgaum Customs Cordon which had been abolished by the Convention of 1915, has added one more cause for complaint. It has lent support to the contention of the Indian States on the sea-board that British Indian Trade and British Indian Ports have to be developed even to the exclusion of those of the Indian States. It has also lent countenance that the interests of the States are subordinated to the wishes of the British Indian Electorate, which, to say the least, is a constitutional anomaly.

There is nothing novel or revolutionary in the idea of admitting the Indian States to a share of the customs revenue. The principle has already been recognized though tentatively and in a halting manner by the Government of India in the case of Kashmir and Jammu, Travancore and Cochin and some of the Rajput States, which are given in one form or another a share of the yield of the customs duties. Kashmir receives its imports from the sea-ports free of all duties and has power to impose its own rates on all the goods that cross its frontier, provided the rates are not lower than those of the Indian Tariff. The Government of India have entered into an agreement known as the Interportal Agreement with Travancore whereby that State has surrendered the right of collecting sea customs for an annual sum calculated on the basis of the receipts from the ports at the time the agreement was made. In return for the abolition of their transit and customs duties, Alwar and Kishengarh receive certain compensation.

The former gets annually a sum of 1,25,000 rupees. Thus the principle of admitting the States to a share of the customs revenue and of compensating them for the surrender of the privilege of regulating their own commerce has already been recognised by the Government of India. What is now needed is merely an extension of the principle to the Indian States in general whose subjects no less than the subjects of British India pay these customs duties in proportion to their consumption of the dutiable commodities.

**Coinage and Currency:** Owing to its geographical advantage, its larger sphere of economic activity, its more widespread trade operations and the consequent commercial connections which have grown up between British India and the Indian States, the Government of India has been able in practice to impose its own currency upon the States. Naturally the defects of its currency policy have reacted upon their economic conditions, by throwing an unexpected burden upon them. Further, after the War, the Indian States along with the rest of India, have been forced to incur increasing expenditure in order to maintain their growing activities—economic and social—at a high level of efficiency. Besides the depreciation of the rupee—in other words the rise of prices—has sent up the cost of administration everywhere, while at the same time it has reacted upon the people by increasing their cost of living. All these results are due to a certain extent to the currency policy of the Government of India.

Further the British currency has been adopted by almost all the Indian States, though there are certain exceptions like Hyderabad, where both the British as well as State currencies are in force. The Government of India coins rupees for the use of British India as well as for that of the States. Large minting profits and seigniorage receipts are made by the Government of India which accumulate them in the Gold Standard Reserve meant for the stabilisation of the exchange. Besides the management of the currency by the Government of India acts inevitably upon the economic conditions of the people of the States as much as upon those of British India. Thus Indian States have a clear right to be

consulted before any change in the currency policy is contemplated.

**Opium and Salt:** The subjects of Salt and Opium have been repeatedly brought to the notice of the Government of India with very little tangible result. As regards Opium, though the direct trade with China is abolished yet Indian Opium finds its way into that country through Japan, Persia, and the Straits Settlements. French Indo-China still absorbs a large quantity. And Holland and other European countries import this drug for medicinal and other purposes. The Indian States claim that the legitimate trade in Opium which still exists should be thrown open to them, or at least the profits derived by the Government of India from their opium trade should be equitably distributed amongst them. The claim of the States receives added emphasis from the fact that the Opium revenue of the Government of India has increased from Rs. 2·87 crores in 1915-16 to Rs. 4·34 crores in 1924-25.

As regards Salt, the Government of India secured to itself the monopoly of the Salt trade of India, having given compensation to certain States with whom special agreements were entered into. But some of the larger States did not receive any compensation at all; and they have therefore lost their revenues and are even now losing them, while their subjects are burdened with this tax on a necessity of life which they would have escaped if their States had not chosen to levy it. Even these States to which compensation was given have suffered inasmuch as the rates of duty on Salt have fluctuated, while the amounts of individual compensation have remained constant. The Government of India get an increasing income at the expense of the States which receive no compensation as well as of those which get a fixed amount. Under these circumstances, it is but fair that those States should receive the differences due to the higher rates of duty levied subsequently as compared with those which obtained at the time the agreements were entered into; while the States which are not given anything at present must be treated on a basis of equality with the rest.

**Posts and Telegraphs and Railways:** This is another matter in which the Government of India controls the interests of the Indian States. There are no doubt certain States like Hyderabad which have their own Postal Departments; but even within the territories of such States, the British Indian Postal arrangements predominate owing to a variety of circumstances. The Telegraphs, however are entirely in the hands of the Government of India. And all the profits that accrue from the administration of these Departments and all the other incidental advantages thereof are wholly reserved to British India to the exclusion of the States. The Railway Policy of the Government of India is open to the same objection so far as it affects the Indian States. The earnings made by the Railways whose lines run through the States are credited wholly to the British Indian Railway administrations and are not subject to State taxation. Nor are the States given a voice in the operation of those sections which are worked within their territories. Besides the Railways owned by Indian States are regarded for all practical purposes as branch lines of the British Indian Systems. The subordinate position of the State Railways is made clear by the fact that they receive in all matters of common traffic a treatment much less favourable than that received by their own branch lines. Further every new project in the States has to receive the sanction of the Secretary of State. And though legislation passed by the Governor-General-in-Council can have no force in the Indian States, yet an exception is made in the case of the Indian Railway Act which is supposed to apply to the State Railways also. Thus the States have neither any control over their own Railway policies, nor do they receive an adequate share in the profits made by the British Indian Railways to which they make contributions in so far as they serve as feeder lines.

On balance it is thus found that the States give in one shape or another to British India much more than they receive from it. The terms of interchange consisting on the one hand of intangible utilities like security, peace and protection, and on

the other of cessions of territory and payment of subsidies, of duty on consumable commodities like salt and profits from opium, and taxes on raw materials of manufacture such as cotton and iron, the incidence of which cannot be accurately traced, do not admit of any accurate mathematical expression. But they are definite enough to give one a more or less clear idea that the balance of advantage lies on the side of British India. The States it is pointed out enjoy peace and protection from foreign aggression; these are benefits, no doubt, to be highly esteemed and worth a considerable price. But they are not given away to the States without a *quid pro quo*; the States have actually paid for them and continue to do so. Some of the States—the most important of them—have surrendered parts of their territory, while others pay annually subsidies which amount to about a crore of rupees. Nearly all of them maintain armies, Imperial Service Troops, not so much to secure internal peace as to safeguard and guarantee, in their own humble way, the integrity of the Empire. What is most important of all is that British India finds in the Indian States reserves of strength, both monetary and military, which can be drawn upon in times of national peril. Such reserves were freely made use of during the Great War and their value to the Empire is handsomely acknowledged by the distinguished authors of the Montague-Chelmsford Report in the following words.

“ No words of ours are needed to make known the services to the Empire which the States have rendered . . . With one accord the Rulers of the Native States in India rallied to fight for the Empire when war was declared; they offered their personal services and the resources of their States. Imperial Service Troops from over a score of States have fought in various fields, and many with great gallantry and honour. The Princes have helped lavishly with men and horses, material and money, and some of them have served in person in France and elsewhere. They have shown that our quarrel is their quarrel; and they have both learned and taught the lesson of their own indissoluble connexion with the

Empire and their immense value as part of the polity of India.”

So, the States in exchange for the ceded territory, payment of subsidy and maintenance of efficient troops, obtain from British India the advantages of peace, security and protection. The terms of exchange may be considered fair and equitable. But the further loading of one side of the scale—that of the Indian States—with serious deprivations such as those involved in the sea customs, salt and opium, coinage and currency, Post, Telegraphs and Railways is hardly fair to the States, especially at a time when their resources are found insufficient to meet their growing needs. In the circumstances in which the Indian States find themselves, they can hardly balance their budgets, for the devices that are usually open to the Sovereign States, *viz.*, levy of customs duties, profits from coinage and currency, revenues from opium and salt monopoly, whereby they can adjust their income to the expenditure and provide for a fuller and happier life for their people are practically denied to them. The States have therefore a just claim to put forth for the consideration of the Government of India. Not only should there be joint deliberation in matters which are of common interest to both Indian States and British India, but the States should be given a proportionate share of all the revenues to which their subjects contribute.

### 3. FINANCIAL RELATIONS BETWEEN THE MYSORE STATE AND THE GOVERNMENT OF INDIA

Having considered the relations between the Government of India and the Indian States in general the position of Mysore in this respect may now be discussed in some detail. Along with the other States, Mysore is laid under contribution in various ways by British India; and the taxable capacity of her people is further tapped without any commensurate benefit being given in return. All the general arguments hitherto adduced apply to Mysore also, while there are a few more which arise out of the peculiar circum-

stances of the State. The relations between the Government of India and the Mysore State are set down in the Instrument of Transfer of 1881, replaced by the recent Treaty of 1913.

As regards the customs duties, Mysore belongs to the category of inland States, which having no sea-board, are subject to an indirect taxation by the Government of India in the shape of Import Duties. Under the Treaty barring two kinds of commodities, *viz.*, (1) articles of through traffic, which may not break bulk within the Mysore Territories and (2) articles which are imported for the use of troops in Cantonments, the Government of Mysore retain the right to impose duties on all other goods which are imported into, and exported from, the States. A suggestion is made that the State should levy export duties on certain articles such as silk, copra, arecanuts, fruits, hides, tanning materials, etc., which are produced under conditions of special advantage in the State, because such export duties could be shifted to consumers in British India and in foreign countries. Similarly an import duty on articles of luxury such as tobacco can also be levied by the State. Yet the Government hesitates to adopt the measure, as being surrounded on all sides by British Territory, the people have already to bear their share of all customs duties in India and such further duties unless there is a certainty that they would be shifted to the consumers might act as double burden on the people.

Mysore being a land-locked State, the Government of India is in a position to levy customs duties on all foreign goods imported into the State. Owing to the avowed policy of Protection which the Government of India has adopted in recent years, the classes of articles on which duty is levied have been increased to such an extent and the rates of duties so greatly enhanced that the drain of Mysore through this channel has now grown to such an extent as to reduce the taxable capacity of the people and the resources of the State. The customs receipts of the Government of India swelled from Rs. 8.81 crores in 1915-16 to about 35½ crores in 1921-22 and to Rs. 46.40 crores in 1925-26. The tax virtually operates as an enforced levy and as it is continually



showing an upward tendency, it is necessary that the interests of Mysore should receive particular attention. Besides, when the Provincial Governments can import stores, materials and other goods duty free into their territories, it is not just that the Mysore Government 'as such' should be debarred from doing so, especially in these days of financial stringency, and more particularly when the Mysore Government does not levy any duty on goods in through traffic which do not break bulk in the State. The burden is all the more severe when it is considered that the State is losing about Rs. 10 to 11 lakhs per annum from transit duties which were abolished as being a restriction on trade, though some of the articles on which these duties were levied were such that the burden could be shifted to consumers, being produced chiefly in Mysore. It may not be out of place to mention here that the State suffers greatly from its remoteness from good harbours. The acquisition and development of a port on the West-Coast such as Bhatkal will be of great advantage to the state; it will reduce the cost of carriage and divert the trade to the most suitable channel instead of going by the circuitous route, as at present, to Bombay, Madras, Mangalore or Marmagaoa.

Next Mysore is prohibited from the manufacture of and trade in salt and opium. The salt arrangements of the Government of India are not equitable as regards the interests of the Mysore State. According to the Report on Taxation in Mysore, "the taxes of the State fall in the main on labourers, urban and rural, and small landholders and peasant proprietors. The comparatively wealthy persons consist of large holders, *viz.*, big merchants and the upper grades of professional classes. . . . This class may be said to be comparatively under-taxed" (p. 92). Thus incidence of taxation as a whole falls heavily on the poorer classes in the State; and to levy a tax on such a necessity as salt, would be too much of a strain on the already low taxable capacity of these classes. If the Mysore State were not bound by the terms of the Treaty it is possible, the salt duty may not have been levied or if levied, the salt-revenue would at least have been utilized for

the benefit of the tax-payers. Besides, the Government of India is not following a uniform policy towards all the Indian States. The Rajputana States which are affected by the British Salt monopoly on the Sambhar Lake have all been compensated. The Central India Agency, States of Gwalior and Indore have also been awarded an annual compensation for the loss of their salt-revenue. Even the Maritime States of Travancore and Cochin have received pecuniary compensation for certain rights over salt which they abandoned. The Guzerat States of Cambay and Radhanpur are being paid an equivalent for the duty they have foregone on salt consumed by their own subjects. The Kathiawar Maritime States are allowed to utilise their own salt for the consumption of their own people. The Mysore State receives neither compensation for loss of salt revenue nor is it allowed to import free of tax salt for the consumption of the people.

As regards coinage and currency the Treaty has the following:—"The coins of the Government of India shall be legal tender in the said territories in the cases in which payment made in such coins would under the law for the time being in force, be a legal tender in British India; and all the laws and rules for the time being applicable to coins current in British India should apply to coins current in the said territories." Thus by this provision, no option is given to the Mysore State. It places the administration of the coinage and control of currency entirely in the hands of the Government of India. Gold Standard, Gold Bullion Standard or Gold Exchange Standard, 1s. 4d. ratio or 1s. 6d. ratio, Imperial Bank or a Reserve Bank—all these are matters in which the Indian States like Mysore have no voice, though they are as much affected by any policy followed in these matters as British India.

Posts and Telegraphs of the State are also controlled by the Government of India by express clauses in the Instrument of Transfer as well as the Treaty of 1913. The old Auctre was amalgamated with the British Postal Service in April, 1889, and the management transferred to that Department. The terms of the

transfer were, that the whole of the Postal expenditure should be borne by the British Government and that the whole of the official correspondence of the State should be carried within the limits of Mysore free of cost to the Durbar. It is needless to point out that Mysore has a right to ask for a share in the surpluses that might accrue from the working of the Posts and Telegraphs in the state.

In respect of her Railways her obligation under the Treaty, merely consists in placing at the disposal of the Government of India all the land that is required for the construction of any railway line by that Government, yet in practice, the Mysore Government will have to obtain the sanction of the Government of India for any new section that has to be laid out within the territories of the State. Besides, the Policy of Indian Railway systems is considered to be too narrow and dominated by profit-seeking interests to give the needed impetus to the proper development of the country and in the case of the Indian States their interests are practically ignored. The existing Railway System in the State does not coincide with the natural arteries of trade in the central portion of the southern half of the Peninsula. For instance, a through route between Bombay and Colombo is absolutely necessary which will be provided if the Nanjungud-Erode section is completed. A connection between Bangalore and Hosur and Chitaldrug and Rayadrug will join its railway system to the bordering British Districts while the want of several other lines cut it off from its several natural outlets into the sea. These proposals have not been acted upon with the result that the trade is forced into unsuitable channels leading to much economical loss.

In addition to all these indirect charges on the finances of the State, the Government of India levies an annual subsidy of Rs. 35 lakhs now reduced to 24½ lakhs. In return, the British Government undertakes to defend and protect the Mysore territories against all external enemies.

The subsidy though purely a military obligation, has serious economic consequences on the finances of the State as well as the

taxable capacity of the subjects. Of the total tribute of about 84 lakhs realised by the Government of India from the Indian States, Mysore alone paid up till last year when subsidy was reduced by  $10\frac{1}{2}$  lakhs, nearly 35 per cent. That this is far too heavy a burden will be clearly seen when it is remembered that Mysore occupies less than five per cent of the total area of Indian States and that this heavy contribution comes from the pockets of only about 8 per cent of their total population. Thus the whole question of apportionment of subsidies requires careful investigation. Besides this direct burden, it must be remembered that the people of Mysore pay other indirect taxes by way of customs duties, coinage and currency profits, revenues from Posts, Telegraphs and Railways, as well as from salt and opium. Apart from this, the Government of Mysore have been maintaining for many years past an efficient contingent of Imperial Service Troops at a cost of about Rs.  $7\frac{1}{2}$  lakhs per annum, and this should have automatically released it of the responsibility of paying at least a part of the subsidy. Further, territory has been ceded for the Cantonment, under the aegis of which a big city has now developed, though it is quite legitimate that the State should retain civil jurisdiction over the territory and thus appropriate any surplus which will accrue therefrom.

It is thus clear that the Mysore State along with other Indian States has been contributing directly and indirectly in a number of ways to the Imperial Exchequer. The pressure of these contributions on the State finances is accentuated by the fact that, the tax system of the state does not possess elasticity, while the public expenditure has been increasing rapidly, especially in view of the recent development in the nation-building departments. Various causes have led to the comparative inelasticity of the tax-system, chief of them being the absence of indirect taxation, that is on articles of general consumption. Except for the duties on liquors and drugs, hardly any taxes on commodities in general use are levied at present in Mysore. Such taxation is practically reserved for the Imperial Government, which derives an ever-

increasing revenue from customs duties and salt-tax. The State has thus been deprived of these expanding items of revenue.

While the sources of Public Income are thus inelastic, the Mysore State has to meet an ever-increasing demand on her Exchequer. Following the times the State has been launching out on vast schemes of social and economic development, *e.g.*, compulsory and Universal Education, an all-round attack on diseases, such as malaria, hook-worm, phthisis, etc., construction of irrigation works and the restoration of those which have fallen into disuse, provision of transportation facilities and of public parks, museums and other amenities of social life. Besides a comprehensive scheme of rural reconstruction in anticipation of that adumbrated by the Royal Commission on Agriculture has also been put into operation. The increasing cost of public administration, consequent upon increasing State action in the Socio-economic sphere has also added to the enormous demand on the Public revenue. The growth of expenditure in Mysore has been from Rs. 119 lakhs in 1880 to Rs. 343 lakhs in 1927. Ways and means have therefore to be devised for meeting the difficult financial situation. Industrialisation of the country no doubt, will to a certain extent, remedy the situation by increasing the taxable capacity and providing new sources of revenue, but this is only a long-run remedy.

Immediately there are three ways by which the Exchequer can be replenished. The existing taxes may be recast and readjusted; but very little increase of revenue can be expected from it, because the most important sources of public income, *e.g.*, land revenue and excise have been exploited to the utmost, or new taxes may be introduced; but this source also, cannot act as an appreciable relief for, the most productive of the possible taxes, *viz.*, the tax on tobacco, is expected to yield only about Rs. 6 lakhs, while the other taxes taken together will not add a like sum. Finally there is the last source which may be tapped; but in practice it is not available to the Mysore State, as indirect taxation by way of customs or salt duty is being levied by the

Imperial Government. The Report on Taxation in Mysore has put the whole case in a nut-shell. "Therefore the only alternatives are either a reduction in the heavy demands made by the Imperial Government on the taxable capacity and the resources of the State or additional taxes, the most productive of which, the tax on tobacco, will fall on classes already taxed heavily. It is for those responsible for the finances of the State to weigh the probability of the one against the imperativeness of the other; and it is for the representatives of the people to appreciate the position of the Government in the matter to support in their endeavour to obtain relief from the Imperial Government, failing which, acquiesce in the necessity to impose fresh taxation."<sup>1</sup> To what an extent the Mysore finances will improve is shown by the computation of the share of the State in the Imperial customs. In 1922 on a population basis, it was estimated at 58 lakhs. In 1925-26 on the same basis it amounted to about Rs. 86 lakhs, the disparity being explained by increased rates of duty and increased number of dutiable commodities.

It is an interesting speculation to picture the position of Mysore levying its own customs duties on its own imports at the same rates as those fixed in the tariff schedule of the Government of India. It has already been pointed out that under the Treaty, but for one or two exceptions, Mysore enjoys fiscal autonomy. Taking into account the Rail-borne imports into Mysore for the year 1924-25, the yield of the customs duties will total up to Rs. 230.30 lakhs (see Table I). This figure is much greater than the one arrived at by computation on the population basis, *viz.*, 86 lakhs. The difference in the figures is due to several reasons. In the first place no allowance is made for re-exports which is an item of some importance in a Centre State like Mysore. Secondly in recent years there has been an import of industrial plant and capital goods for development purposes greatly in excess of the normal requirements of the State. Thirdly allowance must be

<sup>1</sup> *Vide*, Report on Taxation in Mysore, pp. 155—158.

made for that part of the imports that find their way to the Bangalore Cantonment on which duties cannot be levied by the Mysore Durbar. Fourthly import duties of the Government of India followed by import duties in the Mysore State will inflate the prices of commodities to such an extent as to curtail the consumption and cause a considerable diminution in the yield of the customs revenue. When these and other limiting considerations are taken into account, the figure will be reduced by a large percentage and the remainder say about Rs. 130 lakhs represent what Mysore will gain by levying its own tariff if it chose to do so. A sum of Rs. 100 lakhs or even of Rs. 86 lakhs on the population basis will certainly put the Mysore finances in a prosperous condition and the Mysore Durbar can undertake the nation-building activities in which it is keenly interested with no fear of financial complications and with no need to increase the burden of direct taxation.

#### 4. RECASTING OF THE FISCAL RELATIONS AND RE-ADJUSTMENT OF THE FISCAL MACHINERY

It is thus seen in what a variety of ways the fiscal and financial policy of the Government of India affects vitally the interests of Indian States. The Government of India decide upon their policy without taking the view of the States into consideration. This is because there is at present no machinery for collective consultation and joint deliberation in matters of common interest to both the Government of India and the Indian States.

The necessity for such a machinery was recognised by the authors of the Montford Report in 1919, and it was conceded that the Indian States had a clear right for such collective consultation in the future. In para 311 of the Report, they observe: "Our last proposal is intended to provide some means of deliberation between the Government of India and the Princes on matters of common interest to both and so, to ensure that as far

as possible, decisions affecting India as a whole shall be reached after the views of the Durbars have been taken into account. In the past it certainly has occasionally happened that the States were vitally affected by decisions taken without reference to them; and yet no machinery for such collective consultation with them has hitherto existed. It seems to us that they have a clear right to ask for it in the future." It was in accordance with this proposal that a scheme was outlined for a Council of Princes, a Council of State and a Privy Council, and an ideal was held out for the distant future of constituting a machinery for bringing together the Senatorial institutions of British India and the Rulers of Indian States into close relation with each other. It was expected that there would be joint deliberation between the Council of State and the Chamber of Princes. But there were two fundamental defects in this arrangement. Sir C. P. Ramaswamy Aiyar in the Sri Krishnarajendra Silver Jubilee University Lecture, 1928, has pointed these defects. Says he, "The outlines of this federal organisation, if such it can be called, were obviously very sketchy and suffer from the serious defects of failing to recognise two factors of considerable importance, *viz.*, (1) the people of the Indian States and (2) the need to co-ordinate the political and economic ideals of the Indian States on the one hand and of the people of India on the other in matters of common concern." The experience of the past decade has shown how this scheme has failed of its purpose.

It is therefore necessary to devise another scheme which is practicable, as well as efficient to cope with the growing needs of the times and which at the same time avoids the defects of the Montford Scheme. With the political aspect of the question we are not directly concerned, though of course, fiscal relations cannot be considered quite apart from political relations.

It is now widely accepted by politicians of all shades of opinion that the tendency in India is towards the formation of a Federal State. When such a Federated States of India materialises, the Indian States will be constituent members of a Feder-



ation along with the British Indian Provinces. The principles of Federal finance which have been discussed before, will apply to such a Federal State, and the machinery which is adopted by the modern Federations will serve as a model to the future Federated States of India in the adjustment of the fiscal relations between the Federal Government and the Constituent States. But this is only an ideal and a tendency which will take a long time to come about.

Immediately a machinery will have to be found out for adjusting the fiscal relations between the Indian States and the Government of India. An Inter-State Fiscal Board, corresponding to the Inter-State Commerce Commissions of Modern Federations must be set up, consisting of impartial fiscal and financial experts, whose function is to apportion the military burden, lay down general lines of fiscal policy, and allocate the revenues from Customs, Excise, Salt and Opium, Railways, Posts and Telegraphs and Coinage and Currency. The administrative details must be dealt with by the Viceroy's Executive Council to which should be appointed a new member to represent the interests of the Indian States. The member must be selected from among the citizens of the Indian States who possess practical experience of their problems. Further the member for Indian States should be assisted by *ad hoc* committees consisting of representatives of the Government of India and the Indian States concerned whenever particular problems arise, and every Indian State should have the right of sending two delegates to advise the member of Council for Indian States when important questions of policy or administration have to be dealt with touching that particular State.

Of the problems which the Inter-State Fiscal Board will have to tackle, the allocation of customs revenue takes easily the first place. It is the most urgent, the most complicated and at the same time the most productive from the point of view of the Indian States. For instance the share of customs revenues claimed by Mysore will be more than 85 lakhs of rupees on a

population basis, while all the other items put together will not come up to half as much. It is therefore proposed to consider this question in detail, while the other claims can be solved without much difficulty.

Five principal methods of solution can be suggested so far as the customs revenues are concerned. These are (1) Transport in bond without breaking bulk to the States, (2) Owning of ports, (3) Hiring of warehouses at ports by the States, (4) Rebates and drawbacks on goods finding their way in bulk to the States, or (5) The formation of a Customs Union like the German Zollverein.

The land-locked states may be allowed the free importation of foreign goods in bulk with proper seals under one condition, *viz.*, that they undertake to collect customs duties at rates not lower than the British Indian tariff on all such goods when they cross their borders. The State of Kashmir and Jammu in fact enjoys this concession at present.

The second method is to allow the States in the interior to own pieces of land at the ports or acquire their own ports where they can build their own warehouses in which their imports could be kept and duties collected before they are consigned to their own territories in bulk under proper seals.

Another method is to allow the Indian States in the hinterland to hire warehouses at the ports where the foreign goods intended for their use may be stored and then transported to their destination after the collection of customs duties and under proper seals.

According to the fourth method, the Government of India will collect as at present the import duties on all goods whether they are destined for the Indian States or for British India, but will grant rebates and drawbacks on such of the articles as will find their way in bulk into the Indian States. By the Interportal Agreement with the Government of India the State of Travancore enjoys this privilege at present.

Obviously the adoption of these methods will lead to lack of uniformity in the administration of the customs tariff. But such uniformity is very essential if unfair discrimination as

between State and State is to be avoided; and it is the reason why in every Federal Constitution, the administration of customs tariff is confined to the Federal Government. Besides there will be an endless number of State warehouses and State ports which will lead to unnecessary confusion and unhealthy competition amongst them. Further the administration of the tariff becomes very complicated if an extensive system of rebates and drawbacks is put into force. And there will be in general a perpetual conflict of interests and jurisdictions between the States Customs authorities and the British Indian Customs authorities. The adoption of these methods is therefore impracticable, confusing and results in much economic waste.

But the last method, *viz.*, the formation of a Customs Union is the simplest, the most practicable and the most widely adopted. According to this method, all the customs revenues would be collected by a single authority and then distributed amongst the various claimants. In Canada, for example, the Dominion transfers annually large subventions to the Provincial authorities in return for their release of their customs and excise revenues. In Australia again a fixed sum *per capita* is annually paid to the States on the same account. The example of Germany will serve as a model for a scheme for the distribution of the customs revenues between the Government of India and the Indian States. The German Zollverein divided the proceeds of the common customs duties among the various States in proportion to population, in return for the surrender of their rights to levy separate customs duties on goods passing through their territories. The same arrangement was continued by the Imperial Constitution of Germany. By this Constitution it was stipulated that so long as the Imperial taxes were not introduced, the several States should contribute according to population what was known as *Matrikularbeitrage* to the making up of any deficit with which the Empire was confronted. In 1879 a high protective tariff was enacted and the authors of the measure desiring to prevent the *Matrikularbeitrage* from being rendered unnecessary by the

increased income from the customs duties carried the Clausula Frankenstein or Frankenstein clause which provided that at the close of each year all proceeds from customs and the tobacco tax in excess of 130 million marks should be distributed among the several States in proportion to population. (*Vide* Ogg and Sharp: Economic Development of Modern Europe.)

Thus in all these instances, there is found the practice of distributing the proceeds from customs duties. If any precedent is needed, these instances supply it in ample measure to the Government of India. The next point to be considered is: What is the basis of the distribution of customs revenue? Four bases suggest themselves for application, *viz.*, (1) Volume of Trade, (2) Amount of Revenue, (3) Amount of Expenditure, and (4) Population. Each of these Standards has its own merits and drawbacks; but the most practical and the least inconvenient of them has to be adopted.

The Volume of Trade is not a satisfactory index of the Customs Revenues. Reliable and accurate statistics of the trade of the Indian States are not available. Moreover the volume of the trade of a country does not necessarily indicate its prosperity: a big trade may only mean that the country is so situated that it serves as a highway of commerce between contiguous countries, or again a comparatively small volume of trade may only signify that the country has a large internal market. Therefore, distribution of the customs revenue according to this method may not be equitable or in direct proportion to the needs of the States.

The annual revenue of a State is not again a fair Standard. The component parts of the revenue, the mode in which it is raised, and the incidence of the revenue on the different classes of the community are all factors which should be taken into consideration but which are under the present circumstances difficult to assess.

The amount of Public Expenditure is also not a reliable basis for the division of Customs Revenue. Expenditure in an Indian State may be personal or public; productive or unproductive; and

only that part of the expenditure which is directed to the common good should be taken into account when the customs revenue is distributed. For want of representative institutions and voting on the budget in most of the Indian States, it is not possible to differentiate between the various parts of the Expenditure.

Population is the most convenient, and the most widely accepted basis of distribution. Especially in a homogeneous country like India where the people in the mass have a common standard of living, division of customs revenue on a *per capita* basis will achieve the largest measure of equity. The incidence of the customs duties falls in the main upon the consumers, that is the people of the country. It is but right that those who pay to the State exchequer in the shape of high prices should reap the benefit of the customs revenue. In other words, distribution per head is but a natural consequence of the payment by every consumer to the national exchequer. Moreover this method is easy to work in practice and easy to understand since it involves only a simple arithmetical calculation.

*Table Showing the Yield Realisable from the Levy of the Imperial Tariff on Mysore Imports, 1924-25*

Names of the articles		Value of the Total Imports	Rate of duty levied	Amount, levied
<i>I. Food, Drink, and Tobacco</i>				
1	Fruits and Vegetables ..	39,13,140	15%	5,86,971
2	Grains and Pulses ...	2,40,19,516	15%	36,02,927
3	Liquor ... ..	7,11,140	15%	1,36,668
4	Provisions ... ..	54,84,022	15%	8,12,603
5	Spices ... ..	55,49,692	15%	8,32,454
6	Sugar ... ..	25,29,659	25%	6,32,415
7	Tea ... ..	4,48,720	15%	67,308
8	Tobacco ... ..	58,09,479	75%	43,57,109
9	Fodder and cattle food ...	3,93,867	15%	59,080

Names of the articles				Value of the Total Imports	Rate of duty levied	Amount levied
<i>II. Raw materials and articles mainly unmanufactured</i>						
1	Coal and coke	...	...	19,81,785	2½%	49,545
2	Gums, resins and lac	...	...	45,555	15%	6,833
3	Hides and Skins	...	...	29,97,384	Free	...
4	Metallic ores	...	..	1,42,01,389	10%	14,20,139
5	Oils :—					
	(a) Kerosene oil	...	...	39,26,148	15%	5,88,923
	(b) Liquid fuel	...	...	1,08,038	15%	16,206
	(c) Lubricating oil	...	...	4,07,854	15%	61,190
	(d) Castor oil	...	...	7,79,745	15%	1,16,961
	(e) Coconut oil	...	...	6,57,161	15%	98,574
	(f) Linseed oil	...	...	26,420	15%	3,963
	(g) Groundnut oil	...	...	5,88,864	15%	88,330
	(h) Gingelly oil	...	...	5,72,438	15%	85,865
	(i) Others	...	...	52,745	15%	8,963
6	Oil seeds	...	...	12,02,797	15%	1,80,420
7	Textile Materials :—					
	(a) Cotton	...	...	2,18,67,488	15%	32,80,123
	(b) Fibres	...	...	15,24,865	15%	2,28,730
	(c) Silk	...	...	17,45,890	15%	2,61,884
	(d) Wool	...	...	18,04,828	15%	2,70,724
8	(a) Wood and timber	...	...	16,01,790	15%	2,40,269
	(b) Fuel	...	...	8,504	2½%	213
<i>III. Articles wholly or mainly manufactured</i>						
1	Apparel	...	...	10,02,545	15%	1,50,382
2	Arms and ammunitions	..	..	8,16,400	30%	2,44,920
3	Clocks and watches	..	..	9,800	30%	2,700
4	Cycles and motor cars	...	...	2,78,900	30%	83,670

Names of the articles	Value of the Total Imports	Rate of duty levied	Amount levied
<i>III. Articles wholly or mainly manufactured—(contd.)</i>			
5 Carriages and cars ... ..	37,000	15 %	5,550
6 Candles ... ..	2,31,224	15 %	34,684
7 Glass and earthenware ... ..	6,72,210	22½ %	1,51,245
8 Others ... ..	16,69,884	15 %	2,50,483
9 Dyes and Colours ... ..	9,87,500	15 %	1,48,125
10 Chemicals ... ..	53,95,496	15 %	8,09,324
11 Machinery ... ..	53,04,992	2½ %	1,32,625
12 Metals :—			
(a) Iron ... ..	31,93,531	10 %	3,19,353
(b) Brass ... ..	8,07,290	15 %	1,21,094
(c) Copper ... ..	7,87,155	15 %	1,18,373
(d) Mercury ... ..	12,400	15 %	1,860
(e) Tin ... ..	16,66,070	15 %	2,49,911
(f) Zinc ... ..	62,448	15 %	9,367
(g) Lead ... ..	65,206	15 %	9,781
(h) Aluminium ... ..	5,12,835	15 %	76,925
13 Books and printed matter ... ..	7,34,600	15 %	1,10,190
14 Leather ... ..	2,09,040	...	...
15 Railway plant and rolling stock	17,89,459	10 %	1,78,946
16 Saltpetre ... ..	46,005	15 %	6,901
<i>IV. All other articles of mer- chandise</i> ... ..	35,27,566	15 %	5,29,135
<i>V. Treasure</i> ... ..	39,64,250	30 %	11,89,275
<i>VI. Animals</i> ... ..	No. 76,971	Free	
TOTAL	...	...	2,30,30,289

# PROHIBITION AND PROHIBITION-FINANCE IN BOMBAY PRESIDENCY

BY

S. K. MURANJAN,

*Karnatak College, Dharwar*

## SUMMARY

Although liquor has been known in India from very early times, the larger part of the Bombay Presidency was almost free from it under the rule of the Peshwas. The confusion and administrative imperfections of the early British policy seem to have caused a considerable spread of the habit. An extensive reform of the system was carried out in 1878 and subsequently, but nevertheless the Excise Committee of 1905-06 found the consumption of liquor extraordinarily high. In 1923, Government accepted the goal of prohibition on the recommendation of the Committee of 1922 and inaugurated a system of rationing. This system has the great merit of allowing for the circumstances of each locality, but is very defective in that the auction of the right of vend prevents the ration from being made effective. Despite this defect, however, it has brought about some moderation of the evil. Liquor offences have no doubt increased but this problem is predominantly a local one. The consumption of other liquors and drugs has no doubt increased but in no way proportionately. As a matter of fact, the rationing system has been tried in England and had achieved good results between 1914—22.

After the ground has been prepared in this manner, prohibition should be enforced in one area after another. The urban areas are from the view-point of finances and administration well-suited for this purpose.

The greatest difficulty in the way of complete prohibition would be its enormous direct and indirect cost. But this cost is not likely to be as great as is supposed by the experts on the subject and is bound to diminish with the progress of events. It is



not true that India is less favourably situated for prohibition than U. S. A. Other difficulties in the way of prohibition are not insuperable. Even as regards the financial difficulty, the problem can be trusted to solve itself in course of time either by means of other forms of taxation or in other ways. Both in the other interests of society as well as in the interests of prohibition, progress must proceed by well-defined and carefully laid stages.

---

There is little doubt that the people of this country have been acquainted with intoxicating liquors from very early times. We even find the well-known Hindu genius for classification and technical detail applied on occasions to the explanation of the processes of distillation and very realistic appraisal of the various inspiring beverages. Sanskrit poetry—epic and lyric—is redolent with the flavour of the choice delicacies which found favour with all ranks of society. Gods and sages, kings and subjects, men and women, none are found raised so high or fallen so low as to refuse themselves this joy of self-abandonment. In more historic times, we meet with the great Buddha and the law-giver Manu who feel themselves compelled to deprecate in strong and earnest language the spread of this habit. With the rapid decadence of Buddhism and the diffusion of Tantric rites, however, liquor seems to have once more attained its ancient sway. A few of the Muslim rulers of this land later on made a spasmodic effort or two to expel this evil, but their success was very limited and of very short duration. Foreign travellers who visited this country shortly before the rise of British power note with astonishment the mass-dissipation caused by grog-shops in large centres of population. They record also the amazing cheapness of the commodity which enabled even the poorest to raise themselves to the pitch of intoxication in one pice or two. But at no time, under native rule, was this addiction sought to be made an important source of revenue to the State. The financial importance of the alcohol-habit is largely the contribution of British genius for orderliness and administrative perfection in all sides of social life.

Unlike other parts of the country, however, the territories ruled by the Peshwas seem to have been remarkably free from the curse of the liquor-habit. It was only in the concluding decades of their rule that any appreciable revenue began to flow into the State-treasury from this source. In some places, the impost took the form of a tree-tax or shop-tax. In others, the monopoly of manufacture and sale was farmed out either by the Mahal or the shop to the highest bidder. The offences of drunkenness or illicit supply of liquor were visited with more or less severe punishment according to the caste and social status of the persons implicated.

The advent of British rule saw the introduction of several new practices which are too varied for any brief and clear narration. In three or four cities, Government distilleries were set up and a fixed duty was levied on each gallon of liquor removed. The expense of maintaining an adequate number of such factories and the necessary establishments deterred the Government, however, from extending this system to other places. Instead, the right of both manufacture and sale was sold in some districts by auction to the highest bidder, the farms comprising in most cases a few villages, in others, whole Talukas. Elsewhere, the farmer of Government revenue was entitled to purchase liquor of whatever kind and strength at fixed prices from the manufacturing castes and sell it as he pleased and where he pleased. In most cases, spirit-farms and toddy-farms were disposed of conjointly as single units.

It soon became clear that these various practices implied little regard for the quality, strength, quantity or price of the spirits put on the market. The increase of consumption proceeded, indeed, at such a rate that the local officers were soon persuaded to undertake inquiries and submit reports drafted in rather strong language. The local Government refrained, however, from adopting any measures partly because it was led to regard these protests as considerably overstated and partly because the Imperial Government were then contemplating legislation on this subject. A little later an Act of 1852 established universally the auction-system—

each auction now comprising whole Mahals. The rival plan of separate licensing was rejected on the ground of additional labour which it might have thrown on the revenue establishments.

In 1869, one Mr. Bell prepared a comprehensive report on the Excise system of this province. He pleaded in the report for a complete control over manufacture, imposition of a duty prior to removal for consumption, an appropriate discrimination in the rates levied on toddy and spirituous liquors, enforcement of duty for the payment of duty on the manufacturer rather than his servants, and finally an efficient establishment for control and supervision. Partly on the basis of this report, and partly on the strength of suggestions made by the Government of India in 1859, Mr. Prichard carried out in 1878 a drastic reform of the whole system. In the first place, the manufacture of Mhowra spirit was now confined entirely to Central Distilleries. The monopolies of manufacture and sale went together and were given to him who "guaranteed" to pay the still-head duty on a minimum number of gallons and to sell liquor within stipulated maximum prices. The duty was varied according to the strength of the liquid sold. In the second place, a tree-tax was levied upon all palm-trees from which toddy might be extracted; but in case spirituous waters were extracted from them, the levy was to be raised to the full liquor-rates. Thirdly, a staff of police and inspectors was created to ensure a proper working of the system. In order to prevent illicit importation into British territories the Government rented also the Abkari management of most of the Native States. In this way, the Government secured in its hands the regulation of the quality, strength, quantity and prices of the liquor consumed in this province. A Mhowra Act in 1852 put some restrictions on the traffic in Mhowra flower.

In the meanwhile, largely on account of a temperance agitation in England, the Government of India accepted in the eighties of the last century the goal of minimum consumption with maximum revenue approved by the Madras Abkari Committee of a few years earlier. The Indian Excise Committee of 1905-06

found, however, that this province was consuming more than one-third of the total distillery liquor manufactured in India. Its per head consumption was five times as high as in other areas of high consumption with which a statistical comparison was possible. The Committee laid the blame at the door of the district-monopoly system and the low rates of taxation which prevailed on account of the fear of illicit distillation. As a result of its findings, the district-system was replaced by the contract-distillery system under which the contractor is required to supply for a number of years a pure spirit at fixed strength to all retail shop-keepers within a given area at fixed prices. Licenses were issued separately to retail shops on payment of a fixed fee assessed on the sales of the previous year and on condition of selling the waters within fixed maximum prices. Equal rates were now imposed on foreign spirits and toddy-spirit and the rates on country spirit were much enhanced.

In 1908, a provincial Committee dealt with the whole problem of foreign liquor. From 1907, the practice was inaugurated of consulting Excise Advisory Committees as regards the number and location of the sites of liquor-shops. The hours and days of sale were considerably modified, according as the state of local demand and facilities of illicit distillation permitted the changes. In 1914, the minimum age of persons to whom liquor could be sold was raised from 14 to 16. In 1915, while the rates of duty were being raised, the strength of liquor was simultaneously reduced to 25 U.P. and 60 U.P. for Bombay City and 25 U.P. and 30 U.P. for the districts.

Shortly afterwards it was found that the maximum selling prices and guarantee of full measure were frequently disregarded and sales outside authorised hours were frequently resorted to. Government met this situation in 1918 by abandoning the fixed fee and maximum sale-price system and adopting the Madras auction system.

In 1922, the Bombay Government appointed a committee to inquire into the drink and drug traffic in the province and to re-

port upon the question of total prohibition. On the recommendation of this Committee, the Government accepted in 1925 the total extinction of this traffic as the ultimate goal of their Excise-policy. In 1926, another committee known after its chairman as the Kay Committee inquired into the financial implications of this goal and by a majority expressed itself as unable to formulate an adequate scheme of taxation and consequently to suggest a definite programme for the realization of the goal. In 1928, the Government "while not abandoning the hope of eventually attaining total prohibition" declared their conviction that progress must be slow and that the time and stage of reduction in consumption must be judged according to the circumstances of each year.

For the explanation of these later developments, we must now direct our attention to the efforts made during the last few years to reduce consumption and the consequences which have ensued from them. In 1923-24, the Government made a beginning by inaugurating a scheme of rationing by which the allowances for the whole province and for each district separately were to be regulated with a view to gradual prohibition. The Government made a blunder or two in the actual working out of the system which at first retarded progress to some extent. In the first place, the rationing was calculated on the consumption figures of 1920-21. This was somewhat unfortunate because the post-war conditions of speculation and moral relaxation tended in that year to raise consumption much above the normal level. This mistake was rectified in the year 1926-27, when the rations were fixed on the basis of the preceding year (1925-26). Secondly, till 1925-26, the shop was regarded as the proper basis for fixing the total ration of the district. This tended to keep out of account the general circumstances of the district as a whole and hence to narrow down the basis of the policy. In 1926-27, however, the shop was abandoned in favour of the district as the proper unit for fixing the ration.

This plan of rationing has the obvious advantage, when properly worked out, of allowing the circumstances of each local area

their due weight in determining the speed of the curtailment of consumption. As the Excise Committee of 1905-06 found, the factors which influence the consumption of liquor are various and of different degrees of appeal to the various sections of the community. The consumption is larger in regions of heavy rainfall than in those with low rainfall; as also in malarious tracts as compared with healthy places. It is also apt to vary largely according to the race, religion and caste of the population. As between urban and rural areas, the evil has always been much graver in the former. Thus, a system of rationing of this type alone could have the requisite weight to local circumstances so as to reduce temptations to offences against the Abkari Act to a minimum.

But no less vital than a scientific apportionment of the total allowance is the price at which liquor is actually offered to the consumer. Since the supply is to be kept deliberately short, the effective disposal of the ration presupposes a selling price which is appropriate to that supply. But it is at this point that the present system breaks down in a manner calculated to put in serious jeopardy its ultimate success. The right of vend—it will be remembered—is at present disposed of by auction and the prices realized vary according to the quantity of the ration, keenness of competition and personal rivalry, and the expectations of the bidders regarding the general prosperity of the local community. The successful bidder naturally attempts to manipulate the prices in such a way as would seem to assure for him the largest possible return under the circumstances. He calculates the cost price of the liquor, the rates of still-head duty and the auction-prices paid by him and then manipulates the prices according to the prospects of day to day, regardless of the ration actually fixed for the locality.

The consequences of this defect are apparent in the divergence which occurs between the ration fixed and the quantity statistics—in particular for the districts which are notorious for their addiction to spirituous waters and their excise-crimes.

*(In 000s of gallons)*

		1921-22 Consump- tion.	Ration.	1923-24 Consump- tion.	Ration.	1926-27 Consump- tion.
Presidency Proper	...	2,101	2,229	1,708	1,798	1,302
Broach	... ..	45	54	48	...	...
Bombay City	...	735	...	...	445	425
Bijapur	... ..	19	26	10	24	10
West Khandesh	...	69	84	56	76	56
East Khandesh	...	69	89	64	72	40
Surat	... ..	178	238	161	217	126
Thana	... ..	320	295	232	233	178

It will be noticed from this table that the rations fixed err on the side of unjustifiable laxity. It is only because of the foregoing defect that the actual curtailment of consumption has been a little too rapid in certain unprepared localities.

How far has this experiment promoted real temperance? Opinion on this vital issue seems fundamentally divided. Nor are we in this country in possession of many kinds of statistics relating to this subject such as are available elsewhere. We may, however, invite attention here to certain general considerations and to a few figures which are at our disposal.

A rationing system may promote temperance in two directions. By inflating prices, it may persuade many of the occasional or hesitating conformists to become more or less permanent non-conformists. And it may cause many of those who are accustomed to excesses to moderate the degree of their dissipation. In either case the gain made is equally solid and worthy, if necessary, of substantial sacrifice on the part of the community.

It is no doubt very difficult in practice to disentangle these two effects from each other and to measure their actual extent. But some general observations of this nature, it is not altogether impracticable to hazard. In the first place, statistics of consump-

tion of licit liquor have an obvious bearing on both the effects under consideration. But these require to be carefully corrected and inferences from them to be modified in the light of evidence of illicit distillation and consumption. As regards the second effect, figures of convictions from drunkenness are a direct and on the whole a reliable guide to existing tendencies. Equally valuable are the statistics relating to deaths from Alcoholism and maladies and other consequences which ensue from Alcoholism. Cases of cirrhosis of liver, attempted suicides, suffocation of infants are examples of the latter type of evidence. It is true that these mishaps may proceed from other causes as well, but their cumulative tendencies in conjunction with other facts are no unimportant evidence of the truth we are seeking to ascertain. Even more unerring than all these are statistics relating to Delirium Tremens which are known to proceed from nothing but intemperance. If the Hospitals in important places in this province could be persuaded to publish these figures, it would serve to dispel a good deal of doubt on the question.

The subjoined table summarizes all the evidence available to us on the subject.

		Country Spirit Shops.	Total Consumption, Presidency Proper 000 gallons.	Offences against Liquor.	Convictions on off-premises.
1919-20	...	1,880	2,641	2,269	...
1920-21	...	1,861	2,615	2,629	6,552
1921-22	...	1,799	2,101	1,909	4,485
1922-23	...	1,733	1,792	3,435	3,852
1923-24	...	1,688	1,708	3,880	3,782
1924-25	...	1,654	...	4,236	...
1925-26	...	1,619	1,405	4,485	3,834
1926-27	...	1,596	1,302	5,416	3,447

The first two columns do not call for any elucidation. It is the evidence furnished by the figures in the third column which has drawn the hottest fire from the opponents of the rationing system in particular and of prohibition in general. It will perhaps be remembered in this connection that a leading paper in this



country—the Times of India—took the lead recently in this attack in a series of highly coloured articles which purported to describe the collapse of the Government's Excise-policy in perhaps the most liquor-addicted district in this province—East & West Khandesh. The main ground of attack was, of course, the alleged conversion of the whole area into a vast clandestine, and illegal distillery. These figures, therefore, demand from us a most careful scrutiny.

It will be observed that between 1919-20 and 1926-27, while consumption has been cut down to half, the number of liquor-crimes has more than doubled. It may well be that the proportion of detected to undetected crimes has grown worse and that the figures under consideration understate the case. It has been found that instead of Mhowra alone, jaggery, molasses, dates, bajri, toddy, etc., have now come into vogue in certain places as the bases of distillation. Raids on villages in some parts can now be undertaken in force only and cases of assault upon the raiding officers have become more frequent. Yet, although these facts stress the difficulties of the goal set before the community, they do not on further consideration support the unqualified condemnation passed upon the results of the present policy.

		Liquor Offences Total.	Illicit Distilla- tion and Possession of Implements.	Illicit Possession.	West and East Liquor O.
1919-20	...	2,269	...	...	...
1920-21	...	2,629	1,195	389	...
1921-22	...	1,909	1,148	158	551 + 148
1922-23	...	3,435	1,686	552	...
1923-24	...	3,880	2,529	522	1,136 + 400
1924-25	...	4,236	...	...	...
1925-26	...	4,485	2,611	917	...
1926-27	...	5,416	2,882	870	1,127 + 400

It should be noted in the first instance that the motive to offences against the liquor-law is twofold. Over and above the object of personal satisfaction, many persons are now lured into these activities by the hope of quick, and extraordinary gains

which the high prices of liquor have made possible. It is indeed the common complaint now with excise-officers that the prizes offered for information prove far less tempting than the trade of illicit distillation. If people were really led into breach of law by the motive of personal gratification, then the unusual increase of liquor offences would certainly have involved a proportional increase in the crime of illicit possession as compared with that of illicit distillation and possession of implements for it. But the figures quoted above reveal that the proportion is almost stationary. In other words, the tendency to drink in disregard of law has not become very much worse than before. This conclusion is reinforced very strongly when considered together with the very remarkable and progressive decrease in the figures of conviction for drunkenness cited above. The figures attest most indisputably the effect of moderation and curtailment in the prevalence of the vice which the ration system with all its defects has brought about. On no other ground can we reconcile the contradictory suggestions of columns 3 and 4 in the table set forth above.

Incidentally, it is also necessary here to point out how the problem of enforcement of prohibition is fundamentally a problem of a few difficult localities. The table above brings out the extraordinarily large contribution to the number of localities made by one such district—the East and the West Khandesh—inhabited by the backward and uncivilized tribes. The wisdom and advantages of a rationing system as an initial preparation for total prohibition are thrown into bold relief by nothing so much as these local situations. The proper remedies in such cases are a more scientific fixation of ration and prices, a strengthening of the hopelessly inadequate Excise staff, and a definite policy of co-operation from other Departments, particularly from the Co-operative and the Police Departments. This is the real moral which impresses itself upon the impartial observer on a perusal of the articles in the Times of India adverted to above—a moral which the writer nowhere shows any consciousness of.

The success of the ration-system may not perhaps be accepted as proved unless its effects on consumption of allied liquors and drugs are also examined. The following table marshalls forth the relevant statistics on this point.

	Toddy Consump- tion.	Foreign Liquors.	Ganja.	Bhang.	Opium.	Charas.
1919-20	...	1,624	...	...	...	...
1920-21	...	12,562	1,808	41'2	8'4	42'6
1921-22	...	...	1,427	38 6	9 2	30'8
1922-23	...	12,792	686*	44'6	8'9	...
1923-24	...	13,186	748	46'5	8'2	...
1924-25	...	...	775	44'4	7'6	...
1925-26	...	12,865	849	43'0	7 1	...
1926-27	...	12,326	...	...	...	...

These figures—it will be agreed—hardly call for any modification of our foregoing conclusions.

It would be extraordinary if this rationing system does not achieve substantial success in this country with its strong moral sentiment against drink, when, as a matter of fact, similar restrictions have worked surprisingly well in other countries without any such initial advantage to boast of. The experiences of England during the war-period are particularly germane to our present thesis. Among the various measures adopted there, three only proved successful and produced good results attested well by police returns and medical statistics. These principal measures were curtailment of hours of sale, limitation of supply and diminution of strength, and finally in prices. Yet, England then was, and still is, least inclined to accept prohibition and the only motive which persuaded her to fall in with these interferences with the Englishman's traditional liberty was that of

\* All these figures are made up of fermented liquors, potable spirits, and wines. The fall in this and subsequent years is due to the fact that only actual sales, *i.e.*, excluding the wholesales, are recorded.

ensuring the highest industrial efficiency in the manufacture of ammunitions.<sup>1</sup>

The greatest defect of the present system—as already pointed out—lies in the fact that the device of auctioning the right of vend without any condition as to the sale-prices of liquor is incompatible with the full disposal of the ration fixed upon. To the extent to which the actual sales fall short of the ration, the effectiveness of the system is no doubt gravely reduced. It would not be difficult, however, to modify it so as to remove the anomaly. But, however improved, this system must involve long delays in advancing from one tentative stage to another and ultimately reach a pass when further advance along the same lines must be barred. We have therefore to canvass the effectiveness and practicability of alternative policies, which may replace it in the pursuit of the same goal.

Three different points of attack suggest themselves at once. In the first place, we may attempt the experiment either in the districts which betray high consumption or those with a comparatively low consumption. Or secondly, we may grapple with the urban areas alone with or without observing the distinction, made above, with regard to consumption. Or finally, we may draw a line of isolation between urban and rural areas as a whole and enforce prohibition in either of them.

The first alternative is bound to present administrative difficulties in their most acute form. Districts of high or low consumption are to be found in all the divisions of the province and the isolation of each from its contiguous territories would mean a separate establishment for each compact area. The difficulties would be at their maximum if the districts first selected are those most abandoned to the liquor-habit. With proportionally high expenses of establishments and maximum opportunities of illicit distillation and importation, the experiment would from its

<sup>1</sup> "Drink in 1914—22: A Lesson in Control" by Arthur Shadwell (Longmans), Chapters 2, 7 and 10.

very inception be doomed to failure. It would be far more preferable to select the division as the area of operation—whatever jealousies and heartburnings it may cause in the rest of the province.

As regards the last plan, both administrative and financial difficulties warn us against attempting prohibition in rural areas. The perilous condition in which we have been placed in certain localities by our present rationing system gives us ample indication of the extent to which the ground is still unprepared there. Unless this system is perfected and made to yield still better results, we shall not be justified in embarking on such a hazardous course of action.

In our opinion it is the second alternative which holds out the greatest promise of present success. It is in the urban areas that the facilities for illicit distillation are most restricted and detection of crimes most easy. It is in the urban areas also, that the ordinary police can be made to reinforce effectively the efforts of the Excise Staff without any fear of bringing demoralization upon them. Above all, nowhere else is public opinion so well-organized, so persistent in its action, and so effective when enlisted in the service of an approved cause. The only serious difficulty would be in guarding all approaches to the town whether by railways or by ordinary roads. But our toll system and railway police ought not to find this responsibility beyond their capacities. Whether any distinction should be made among the towns on the basis of their consumption would be a matter of mere detail, to be determined according to financial convenience.

It is obvious that the benefit of prohibition is likely to be nowhere more marked than in the urban areas. Their present per-head consumption is five or six times as high as in rural areas. The loss of efficiency and moral backbone is all the more pronounced because of the notorious conditions of our town life. Besides, it cannot be too strongly urged here that town life is to a large extent the real source of some of the contaminations which afflict our rural life.

The financial implications of these several alternatives are brought out in the table suffixed to this paper—which may be summarized as follows:—

*Country Liquor only (in lakhs) for 1925-26 and 1926-27*

Prohibition in Districts	of high consumption would involve loss=	85'48&84'4
" " " " low	" " " "	= 35'18&29'3
" " urban areas " high	" " " "	= 25'9&17'9
" " " " lo	" " " "	= 27'8&25'7
" " all rural areas " "	" " " "	= 58'7&53'6
" " urban " " " "	" " " "	= 53'7&53'6
" " City and Island of Bombay "	" " " "	= 102'6&75'3

This table ought to make clear how from the financial point of view, the urban areas present the most favourable field for enforcement of prohibition. The question of the City and Island of Bombay and perhaps one or two other big cities would have to be dealt with separately and perhaps on different principles. It would not be unfair in the case of Bombay, for example, to call upon the municipality and particularly the Textile Industry to contribute towards meeting the big void of prohibition since they will appropriate directly the greater part of the benefit.

We may now address ourselves to the last and perhaps the most vigorously debated issue in connection with prohibition. What are the ultimate financial implications of this goal? Let impartial figures convey their own tale on this point:

Total Revenue.			Total Excise Revenue minus Expenditure.	Country Spirit.	Toddy.	Foreign Liquor	Opium and Hemp.
1921-22	...	...	313'9	...	...	...	42'2
1922-23	..	...	390'1	269'9	32'0	14'4	43'7
1923-24	...	...	399'3	276'1	...	...	46'6
1924-25	...	...	401'8	...	..	...	49'6
1925-26	...	...	361'3	260'6	46'6	...	*59'8
1926-27	...	...	345'4	238'4	49'1	26'9	69'2
1927-28	...	...	337'9	238'0	48'5	25'9	68'8
1928-29	...	...	339'3	238'0	49'0	29'4	68'9

It will be obvious that even the direct financial cost of prohibition is very heavy—almost beyond the capacity of this province. The present net revenue from Excise after adjustments for certain small items of receipts, expenditure and contract-payments aggregates to about  $3\frac{1}{2}$  crores of rupees. If toddy were to be excluded from our present policy as a temporary compromise and the City of Bombay were to be made to pay for the direct benefit in industrial efficiency received by it, this aggregate would fall down to a little more than two crores. To this loss has to be added the indirect recurring and non-recurring cost of prohibition by way of preventive establishments, which has been variously estimated at from  $1\frac{1}{2}$  to  $4\frac{1}{2}$  crores annually. The Kay Committee itself hazarded by a majority an estimate of about  $1\frac{1}{2}$  to 2 crores annually.

There is little doubt that the estimate of  $4\frac{1}{2}$  crores made by the expert officers of the Excise Department for the benefit of Kay Committee was grossly exaggerated. Some of these elements of exaggeration have been well-exposed in paragraph 7 of the Committee's report. There are, besides, other means by which the cost of preventive watch and ward can be very materially reduced. The employment of the ordinary police and railway force—at least in the urban areas and other places—will enable us to dispense with a large part of the proposed huge establishment of several thousands of Chowkies.<sup>2</sup> In any case, there is no reason why the work of the proposed highly paid special detective agency at the top should not be entrusted to the headquarters of the police department. As the Kay Committee put it cautiously, "excise crime cannot be wholly isolated." The reduction of recurring expenditure along these lines will mean a corresponding contrac-

<sup>2</sup> Mr. Clifford's scheme for Sind provides for 1,120 Chowkies with 10 employees in each. Mr. Ghosal's scheme for Presidency Proper provides for 54,000 peons and mounted men, i.e., for about 5,000 Chowkies. The expenses for the two schemes are estimated at 184 and 57 lakhs, while Mr. McGregor's revised estimate works out at 131 lakhs only.

tion in the amazing estimates of 5 and 3½ crores of rupees for non-recurring expenditure.<sup>3</sup>

Not unfrequently do the opponents of prohibition call our attention to the newspaper reports about the happenings in the United States under a dry regime. It is in the first place extremely doubtful—as pointed out by an experienced administrator and statistician like Dr. Newsholme<sup>4</sup>—whether these reports are anything more than selective newspaper propaganda based on the facts concerning a few incorrigible localities like New York City and State. Besides, this comparison overlooks some of the most hopeful factors in the situation here—namely, the religious and social sentiment against liquor, the law-abiding character of the masses, the teetotal habits and traditions of the classes and castes which materially influence the standards of social propriety and behaviour. It is well-known that extensive illicit distillation is most frequent among certain well-marked and isolated aboriginal and backward sections of the population only, from whom the epidemic is not likely to spread to other classes and areas. Above all, since prohibition is to be attained by stages only, the initially estimated cost of prevention is bound to diminish automatically with changes in the habits and outlook of the community and the rise of a new generation unacquainted with our present evil influences and habits.

The other difficulties in the way of prohibition are comparatively unimportant and admit of easy remedies. The first of these is presented by the Native States whose frontiers run along with British territory. Their Abkari is at present managed by the British Government which expires in 1934-35. Since the past has taught them to depend for a considerable part of their revenue upon this source, it is no surprise that at this moment they are opposed tooth and nail to any imposition of prohibition upon them

<sup>3</sup> The provisions for buildings alone in the two abovementioned schemes come to 2 1/5 and 4 1/8 crores respectively.

<sup>4</sup> See "Prohibition in America" by Dr. Arthur Newsholme. P. S. King & Co.<sup>c</sup>



from outside. The most easy way out of this difficulty would be either to grant them compensating subsidies or to isolate them from British territories by a chain of excise police. The practicability of either of these two alternatives in the present state of our finances may perhaps be very doubtful. As a last resort, however, the use of the long arm of political power would certainly be amply justified and is bound to be completely effective. The second problem would be to persuade the Government of India to forego its present Customs Revenue from imported liquor but it is not likely that any opposition would be encountered from that quarter.

On consideration of all these various probabilities we feel ourselves amply justified in placing the total ultimate financial obligation implied in total prohibition at  $4\frac{1}{2}$  crores of rupees,  $3\frac{1}{4}$  crores of rupees of which represent the net loss of revenue and  $1\frac{1}{4}$  represent the cost of preventive establishment, etc. It is probable that the final actual figure may be below this even.

Several proposals for meeting this big void have emanated from different quarters. The propriety of the new avenues of taxation and other allied measures put forward cannot, however, be discussed here unless we discuss along with them the present income of the community, the changes which may occur in it as a consequence of prohibition, the present burden of taxation and its apportionment among individuals and classes. It is sufficient to note here that the Kay Committee could suggest taxation to the extent of  $4\frac{1}{3}$  crores only. A dissenting minute to the report adds other avenues including retrenchment which are estimated to succour the Government to the extent of  $1\frac{1}{4}$  crores more. It should be noted, however, that Government themselves, in their recent press-note on the subject, do not place the additional revenue from all new sources of taxation available to this province at more than 2 crores.

It is probable that this problem may become more easy of solution in the course of time on account of some natural expansion in the present revenues, some re-adjustments in the relations

of Provincial and Imperial Governments, some improvement in the attitude of the community itself. But even after making allowances for all these hopeful probabilities, these figures and facts make any drastic and rapid enforcement of prohibition impracticable and even undesirable. It is too precarious a gamble for any sane Government in our present conditions to rush headlong into.

The implications of prohibition for the other activities of Government are no less serious. Government are already committed by statute to heavy financial obligations on behalf of education for a number of years to come. By past policy and verbal promises, they are also bound to satisfy the large and insistent claims of sanitary and agricultural development. But any policy of rapid prohibition implies, in the present circumstances of the province, a more or less complete arrest of progress in all the other branches of the life of the community, which are financed out of Government resources. Nor is the import of this threatened educational and sanitary stagnation less worthy of attention from the view-point of the ultimate objective of Temperance Reform itself. After all, it is upon the progress of education and public opinion, the development of sanitary habits and healthy outlook regarding life, that we must depend for that permanent change in the standard of life of the people, the hope of which alone justifies drastic policies like that of prohibition. Standards of life and activities, however, respond but very slowly to external changes in environment and changes too rapid for the people to assimilate are apt to expel present evils only to make way for others equally injurious to the quality of human life.

## Country Spirit Revenue

Names.	Districts of High Consumption.		Districts of Low Consumption.		Towns of High Consumption.		Towns of Low Consumption.		Names.
	1923-24	1926-27	1923-24	1926-27	1923-24	1926-27	1923-24	1926-27	
	...	...	...	...	...	...	...	...	
Ahmedabad ...	...	...	2'3	1'9	3'3	...	8'2	9'7	Ahmedabad.
Kaira ...	...	...	3'0	2'7	...	3'0	...	...	?
Panch Mahals ...	2'3	2'0	...	...	2'1	...	4'2	...	Surat
Broach ...	4'3	3'1	...	...	3'1	2'5	...	...	Thana.
Surat ...	12'4	9'8	...	...	...	...	...	...	Bandra.
Thana ...	29'5	21'4	...	...	1'4	...	1'1	1'0	Coorla.
Kolaba ...	9'7	8'0	...	...	...	...	...	...	?
Ratnagiri ...	8'7	5'8	...	...	6	...	...	...	Panwel.
Bijapur ...	...	...	2'3	1'9	5	4	...	...	Alibag.
Sholapur ...	2'5	1'7	...	...	...	...	...	...	Dharwar.
Satara ...	...	...	2'4	1'7	...	...	1'3	1'1	Hubli.
Poona ...	5'5	4'3	...	...	3'5	2'0	1'5	1'8	Belgaum.
Ahmadnagar ...	6	2	...	...	...	...	3'6	3'0	Sholapur.
Nasik ...	6'0	5'4	...	...	...	...	4	3	Satara.
West Khandesh ...	...	...	6'5	5'8	11'4	8'6	...	...	Poona.
East Khandesh ...	...	...	10'6	7'1	...	...	3'2	2'2	Ahmadnagar.
Kanara ...	...	...	2'7	2'5	...	...	1'4	1'5	Nasik.
Dharwar ...	...	...	5'3	5'7	...	...	6	4	Jalgaon.
Belgaum ...	3'9	2'7	...	...	...	...	1'3	8	Bhusal.
Total ...	85'4	64'4	35'1	29'3	25'9	17'9	28'8	25'7	Total
					102'6	75'3	...	...	Town and Island of Bombay.

Note. (1) Figures for rural areas were arrived at by deduction from those in the first two columns for the figures of the last two.  
 (2) Those among the districts consuming in 1923-24 more than 10 drams per head are put in the class of "High Consumption" and in the towns the corresponding figure was 16 drams and more. In the case of towns, the adoption of 20 drams and more will not make an appreciable difference.

# Consumption

District Head-  
quarters and towns over 10,000. Rural Consumption, Presidency Proper.

		Total 000 gal- lons.	Per head Drams.	Total 000 gal- lons.	Per head Drams.	Total 000 gal- lons.	Per head Drams.
1919-20	...	1,450	23.5	1,408	4	2,641	...
1920-21	...	1,621	21.8	1,222	3.7	2,615	...
1921-22	...	1,308	17.3	929	2.8	2,101	...
1922-23	...	1,160	15.3	766	2.3	1,762	5.3
1923-24	...	1,662	14.0	775	2.4	1,708	5.1
1924-25	...	...	...	...	...	...	...
1925-26	...	866	11.9	694	2.2	1,405	4.2
1926-27	...	809	11.3	602	2.1	1,302	3.9

for Presidency in-  
cluding Sind. for Presidency in-  
cluding Sind. for Presidency  
only.

(1925, 1926, 1927 same statistics.)

		Cost price per gallon.	Max. and Min. auction price.	Per head Consumption Drams.	Average Duty.
Bombay...	...	2 8 0	<u>4 9 8</u> 5 1 0	17.3	<u>7 12 0</u>
Poona ..	...	1 13 4	<u>5 0 0</u> 5 14 0	2.9	<u>6 12 0</u> 4 12 0
Nasik ...	...	1 13 0	<u>8 8 0</u> 10 5 0	1.9	<u>3 3 0</u> 3 12 0
Dharwar	...	1 12 0	<u>5 0 0</u> 6 10 0	1.5	<u>6 12 0</u> 4 8 0
Belgaum	...	1 12 0	<u>5 0 0</u> 6 10 0	1.4	<u>6 12 0</u> 4 8 0
Bijapur ...	...	1 12 0	<u>4 2 0</u> 8 0 0	.7	<u>6 12 0</u> 4 8 0
Sholapur	..	1 12 0	<u>8 6 0</u> 11 0 0	1.8	<u>6 12 0</u> 4 8 0

*Country-spirit (in Lakhs.)*

	1921-22	1922-23	1923-24	1924-25	1925-26	1926-27
Receipts from Still-Head Duty ...	188	192	180	...	141	129
Vend and Li- cense Fees ...	43	77	96	...	95	43

## NOTE

The income from country spirit is derived at two stages. A duty is levied, in the first instance, upon every gallon of spirit manufactured in and removed from the distilleries. This duty has been raised successively so that from Rs. 3-9-1 per proof gallon in 1906-07 and Rs. 7-2-7 in 1919-20, it stood at Rs. 10-10-3 in 1923-24. With the decrease in the issue of liquor to the shops, this part of the income has shown a tendency to steady diminution.

The other part of the income is received from fees for the right of retail vend which is put to auction. For this purpose, the Collector fixes in the first instance "upset prices" which are based upon various factors such as the price at which liquor is likely to be sold, the previous prices obtained by the shop, overhead charges like rent, etc., facilities for illicit practices for illicit distillation, etc. These "upset prices" thus vary from locality to locality. The final prices realized at the auctions are also different according to the conditions of the localities, although somewhere in the neighbourhood of the "upset prices."

The income from toddy is derived from (1) tree-tax, and (2) fees from the retail sale of toddy. The tree-tax was allowed to remain without change at a low level for 35 years till 1924. In that year, the rate per date tree was fixed at Rs. 6 and Rs. 3 in the high yield and low yield areas respectively and at Rs. 1-8-0 for Mandvi (North). The rate for cocoanut and brab trees was to be twice as much. As a result of this, the number of trees tapped has continuously diminished.

The revenue from foreign liquors consists of (1) duty on such liquors manufactured in India which are mulcted at Sea-Customs-Tariff Rates and (2) license-fees for the privilege of sale of these and imported liquors.

The cultivation of hemp for Ganja is restricted to four villages in the Ahmadnagar district. The licenses and areas of consumption are strictly restricted. The revenue is derived from (1) quantitative duties on issues from warehouses, and (2) vend-fees.

*Extracts from Excise Administration Reports*

1923-24

EXCISE COMMISSIONER'S OBSERVATIONS

"From the district reports received it appears that this increase (in Ganja consumption) is chiefly due to people finding country-spirit too expensive and resorting to Ganja." (Page 12.)

"In America the advent of prohibition brought with it a large increase in the police force, but here the excise policy amounts to gradual prohibition, the machinery which has to enforce it is being drastically cut down. . . The Government does not want to convert liquor-drinkers into Ganja-smokers, but still the transformation is taking place." (Page 18.)

RESOLUTION OF BOMBAY GOVERNMENT

"But, while the largely increased consumption which they evidence is undoubted, it cannot be affirmed with any degree of certainty that it replaced country liquor to any material extent. The figures cited above would go to show that the reasons for the increase were apparently of a local character, while the fact that the increase of 4,262 licenses in the Presidency Proper occurred mainly under the head of Domestic Consumption, Licenses would further support the inference that the increased consumption occurred among a class who ordinarily use toddy and not among those who are addicted to country liquor."

“In view of their comparatively harmless nature (hemp-drugs), the increase however calls for no particular notice at this stage. . . This fact would strongly suggest that the increase of Ganja was due to the prohibition of the more deleterious drug (charas) and was only remotely connected, if at all, with the reduced consumption of liquor.” (Pp. 2-3.)

“But other causes could also be suggested. . . . Government are therefore inclined to attribute the increase in crime mainly to the wider causes alluded to above and are of opinion that, viewed in this light, the problem of eradicating this species of crime is as much a question of vigilance on the part of the Excise Department as of the gradual weaning of those addicted to drink and finding other avenues of employment for those who have been the purveyors of it. For their own part it is most essential for Government to find alternative uses for those articles—principally Mhowra flowers—which are used as bases for liquor and are produced in abundance in certain parts.”

1926-27

#### EXCISE COMMISSIONER'S OBSERVATIONS

“For instance in one of the biggest English Clubs in this Presidency where formerly the monthly drink bill of an individual member was on an average Rs. 40, it is now only Rs. 22. . . . The larger cities are responsible for much of the increased consumption of foreign liquor.” (Page 17.)

“I am glad to say that so far as we can find out the opium habit is not spreading. Ganja is replacing liquor but opium is not. . . . Actual inquiry, however, shows that whilst on account of the heavy price the amount smoked by each is much less, the number of addicts has increased enormously.” (Page 20.)

“The work of the Department is getting so arduous that many of the subordinates broke down under the stress and no less

than 129 subordinate officers had to proceed on leave mostly on medical certificate."

#### RESOLUTION OF BOMBAY GOVERNMENT

"The diminished consumption (toddy) in the Presidency Proper is to be attributed not to the spread of temperate habits but to the general trade-depression and in some cases also to the unfavourable character of the season." (Page 1.)

". . . Illicit distillation is also carried on on a more extensive and organised scale than ever before. . . . A further cause which tends to nullify the good effects which are sought to be secured, to the great sacrifice of Government revenues, is the newly acquired habit of ganja-smoking which is supplementing, if not supplanting, the drink habit in parts of the Deccan."

---



# THE REFORM OF INDIAN LAND TENURE

BY

RADHA KAMAL MUKERJEE,

*Lucknow University*

## CULTIVATOR'S RIGHT SANCTIONED BY ANCIENT CUSTOM

The present distribution of land in India is fraught with great economic and social danger. Throughout India the ancient custom and tradition laid down that the cultivator had a right to retain his holding so long as he paid a definite share of the harvest or the tax demandable from him. In Southern India, where most of the land is held by petty occupiers direct from the State, this custom has been respected from the beginning of the British rule. In the *ryotwari* areas in Madras the registered occupant of each field is entitled to hold the land for ever, so long as he pays his land revenue; and inheritance, transfer, mortgages, sale and lease are without restriction. Similarly, in Bombay, as in Madras, a *ryot* is secure in possession of his holding, so long as he regularly pays the instalments of his land revenue and the right of occupancy, in the case of the ordinary survey tenure, is transferable by inheritance, sale, gift or mortgage without restriction.

## ITS DENIAL IN THE ZAMINDARI TRACTS

But in Northern India, in both the permanently and temporarily settled districts, the tenants or *ryots* still lack complete protection. The *zamindars* being declared to be "proprietors

of the soil," "land-holders," "land-owners," in the legislation of 1793, it follows as a natural consequence from this and from the introduction of English ideas that the *ryots* have come to be looked upon as their tenants. Every prejudice arising out of Western notions of property and the relations of landlord and tenant in Great Britain was entirely on the side of the *zamindari*. There cannot be the least doubt that even in Bengal every settled cultivator formerly was entitled to be maintained in the quiet occupation of the land he tilled, so long as he paid the established quota of land-tax to the *zamindar*. This was a right inherent in the cultivator as sanctioned in the traditional land law, and did not in any way emanate from the *zamindar* as *sudder malguzar*. It was unfortunate that at the time of the Permanent Settlement the rights of the *ryot* were not defined at all. The Government was unable to ascertain them fully and accurately. Even Shore, in his Minute of 1789, remarked: "With respect to the *ryots*, their rights appear very uncertain and indefinite." The Government was also apprehensive lest enquiries into these rights should excite suspicion in the minds of the *zamindars* that the assessment of the revenue was not really meant to be permanent and it indulged a strong hope that *zamindars* and *ryots* would, as did landlords and tenants in England, adjust all matters of dispute between them by contract.<sup>1</sup> Unfortunately, the subsequent regulations of 1799 and 1812, instead of conferring security of tenure upon the tenant, left him practically at the mercy of the *zamindar*. His property was rendered liable to distraint and his person to imprisonment if he failed to pay his rent, however extortionate it might be. It was only in 1859 that we witness the enactment of a law restricting the *zamindar's* power of enhancement in certain cases. The landlords of Bengal, profiting by special rules made in favour of auction-purchasers and devised to protect the Government revenue, persistently and with the sanction of the courts enhanced rents and ejected tenants arbitrari-

<sup>1</sup> The Report of the Rent Law Commission, pp. 21-22.

ly, thus denying to the *ryots* the security which they enjoyed according to ancient custom and which it never was the intention of the Government to abrogate at the time of the Permanent Settlement.

## STAGES OF TENANT PROTECTION IN THE PROVINCES

Tenant protection is now sought after the model of the Bengal Tenancy Act of 1885, which secured the status and privileges of all classes of tenants in Bengal, including Bihar and Orissa. This Act provides that every *ryot* who has held any land in a village for twelve years acquires thereby a right of occupancy, and 80 or 90 per cent of the occupants have such right. The non-occupancy tenants cannot be ejected excepting in execution of the decree of a competent court, nor can their rents be enhanced at shorter intervals than five years. In the province of Agra the 12-year period of continuous possession formerly constituted the basis of the acquisition of occupancy rights. While in Bengal the right of occupancy accrued without any trouble or harassment, in Agra the increase of occupancy areas was slow and uncertain, and was accompanied by chronic litigation.

In the new Tenancy Act for Agra the 12-year rule has been abrogated, and for non-occupancy tenants a life interest has been granted with a succession for five years, as in the case of the statutory tenants of Oudh. The position of tenants in Oudh is exceptionally weak, though there is no doubt that the recent Oudh Rent Act contributed largely to ameliorate their condition. This accounts for a chronic discontent among the peasantry which lies below the surface. The British Settlement Officers feel that the rights and privileges of the land-holding aristocracy have been bolstered up by pledges which have now proved inconvenient for land reform. There cannot be any doubt whatsoever that the land-owning classes of Oudh will find it to their interest to give adequate protection to the tenants. As time elapses, the so-called statutory tenant will claim and be granted occupancy rights by prescription, and per-

haps a beginning\* in this direction will be represented by the principle that a statutory tenant may acquire occupancy rights in land cultivated from year to year without a lease for at least 12 years. Similarly, in the case of the non-occupancy tenants in Agra, permanence and heritability are the incidents to which the present life tenure will assimilate itself sooner or later as a result either of enlightenment among the landlords or of acute discontent amongst the tenantry.

Another direction of reform lies in the restriction of the accrual of *sir* rights for the landlord both in Agra and Oudh. The justification of *sir* rights mainly lies in the advantages of superior cultivation by the landlord who commands larger capital and shows greater initiative. Thus *sir* rights ought not to be allowed to accrue beyond the extent to which the landlord's family can cultivate the holding without importing into it permanent outside labour. On a similar principle there are grave objections to the letting of *sir* land. *Sir* rights are incompatible with the lease of the land. The same principle will apply in the case of *zamindars* of the Madras Presidency who usually have home-farm lands over which they possess complete rights. As regards the rent rates, the principles now adopted in the recent tenancy legislation of Agra and Oudh are sound. Rents are now fixed at Settlement, the periods of which differ in various provinces, and the Settlement or the Ryot-year Officer has power to reduce exorbitant rents. The rents can be enhanced at fixed intervals, and the rates fixed by the Roster-year Officer govern all the rent suits for the determination of rents. There is little doubt that the special machinery devised in Agra and Oudh will be in closer touch with the local economic data on which alone fair soil rates, district by district, should be based.

### ARBITRATION OF RENT DISPUTES

The great disadvantage of State machinery for the adjustment of rents, however, is its inelasticity and complexity of pro-

cedure. Perhaps a move in the right direction will be represented by the formation of arbitration tribunals whose procedure will be much simpler and whose decisions will be quicker and more acceptable than the decisions of courts and revenue authorities. Japan, by laws passed in 1924, has laid down regulations for arbitration in the matter of tenancy which may be adopted with excellent results in the permanently and temporarily settled tracts of India. In Japan, when a dispute arises on the subject of the amount of or of other questions connected with rent, the parties may present a request for arbitration to the provincial tribunal, which can deal directly with the question or submit it to an arbitral commission, the latter to be composed of a president and of at least two arbitrators. If on the day of hearing the parties have not come to an agreement, the tribunal or the commission, as the case may be, must pronounce its decision; when this decision comes from the commission, it must be submitted to the tribunal for ratification.<sup>2</sup>

In Bengal, Bihar and Orissa the disposal of rent suits is left in the hands of the Civil Courts. Now the number of rent-suits filed each year in many districts is increasing considerably. In one district as many as 17,565 rent-suits were filed in 1918, in almost every case for three years' rent of a holding. It means that every year the rent of 50,000 tenancies falls into arrear and ultimately has to be realised by the civil courts. On the whole, the number of tenancies in the district, the rent of which may be expected to be realised by suit if it falls in arrear has been estimated at rather under three lakhs. The civil court procedure is both expensive and dilatory and the tenants also put forward every device they know to gain time. An alternative method is necessary. Whether the matter should be left in the hands of the revenue officers, or to special land courts, depends upon local conditions, the character of the landlords and the degree of education of the tenants.

<sup>2</sup> International Year Book of Agricultural Legislation, pp. 1061—1069.

## ADVANTAGES AND DRAWBACKS OF PRODUCE-SHARING

Similarly, the produce-rent system, which is now everywhere discouraged in India as being an engine of oppression of the tenantry, need not be discountenanced altogether. In Bihar the produce-rent system is more prevalent than elsewhere because the *zamindars* have played their due part in the construction and maintenance of private canals, channels and embankments. Moreover, the produce rent represents an automatic adjustment to rural economic conditions. From 1859 the enhancement of existing cash rents in Bengal and Bihar was not so easily effected as hitherto, and since 1885 it has been comparatively difficult. Since the Bengal Tenancy Act became law, Bihar *zamindars* generally have been endeavouring to obtain produce rent for as much land as possible. There is no necessity here for the institution of suits for enhancement on the ground of rise in prices, and to the full extent of the rise. The tenants, however, generally detest the appraisal system, which gives at each harvest occasion for friction with landlords; among the petty estates the system does not work as great hardship as in the larger ones. The system undeniably gives opportunities to speculative purchasers in Bihar to annul for practical purposes all the protection which agrarian legislation has afforded to occupancy *ryots*, of which advantage sometimes has been taken.<sup>3</sup> Apart from this, the interdependence of irrigation and produce rents in many cases produces a happy result. Where rent is paid in kind the landlord who neglects his liabilities in respect of irrigation works will at once feel the result in his pocket; these high rents do give him a direct inducement to do his duty. In fact the introduction of commu-

<sup>3</sup> Patna District Gazetteer, p. 14.

tation has in many areas led to the neglect of irrigation works and the *ryots* are now beginning to realise that the conversion of produce rents into money rents has not been altogether beneficial. Although there is a stipulation that the landlord can realise the fixed money rent only as long as he maintains the irrigation system in order, the result in practice has been that he seldom does this. Thus the benevolent intention of the Government is a pious wish because the *ryots* are unable to seek the remedy in the court. There is no doubt that the prosperity of large tracts in Tuscany and Southern France are due to *metayage*. Share Tenancy agreements in Italy testify to the close economic partnership between the landlord and tenant assured thereby; the landlord supplying the machines, live-stock and an adequate working capital in conformity with the requirements of scientific agriculture, while the tenant supplies adequate agricultural labour. The produce is divided usually in exactly equal shares, as in India. The produce-rent system assures to the tenant better protection against the uncertainties to which Indian agriculture is particularly liable. It may be conducive to greater co-operation between the landlord and the tenant, if only there is organisation to protect share tenancy. Thus, when the landlord gets a money-rent instead of his share of produce, he absolves himself of all risk and trouble, which are shifted to the tenant. Absenteeism then follows as the next step. Recently Portugal has passed a law which deals with the form of the payment of rent for rural lands. It lays down that in the case of those contracts for the letting of rural lands, for which it is stipulated that the rent must be paid in cash whatever the duration, form and title of the lease, one moiety of the rent shall be paid on the respective dates of expiry, in cash and the other in kind if the lessor or the lessee should so demand. It is laid down that the commodities contemplated are those which are derived from the cultivation usually predominant on the lands leased; and their value, unless it is otherwise agreed upon by the parties, shall be calculated on the basis of the year in which the lease was concluded.

## RENT OF UNECONOMIC HOLDINGS

In the congested parts of Bengal, Bihar and the United Provinces the section of the Tenancy or Rent Acts which gives the ground for an enhancement of rent by the landlord due to a rise of prices also needs amendment. Population has multiplied and the holdings, owing to continuous fractionalisation, have become uneconomic. Tenants, therefore, who have no surplus agricultural produce for sale do not benefit from a rise of prices. At the same time the competition for land tends continually to raise rent to a higher level than the holdings can pay. There is needed accordingly some discrimination between economic and uneconomic holdings in the assessment of rent by the Settlement or the Roster-year Officer. Obviously the ground for an enhancement of rent due to rise of the price-level is not applicable to uneconomic holdings.

## LEGAL AND ECONOMIC MEASURES OF CONSOLIDATION

Intensive enquiries in the villages of the Indo-Gangetic Plain indicate that this problem is very serious. Nearly half of the tenant population in villages possess holdings whose size is below the subsistence limit of three acres. Again, the unprotected tenant occupies everywhere smaller-sized plots and pays higher rent than the protected tenant. Naturally, most of these unprotected tenants belong to the fluctuating class, tenants one year and labourers the next. The holdings are too small and the rents too high to retain permanent tenants. Hence the question of fair rents is closely related to the problem of economic family holdings. We have already discussed the need of tentative legislation in this direction which would compel all villagers to accept restripment when a majority desires it. On the death of the cultivator, a preferred heir could succeed as in Germany, and compensate the other heirs. The introduction of economic holdings



is, however, impossible so long as there are protected and unprotected grades of tenants, or, again, where agriculture is so much dependent upon rainfall that holdings have to be scattered in different soil areas to minimise the risks of agriculture. In densely populated regions a forward scheme of consolidation would also involve expropriation and widespread distress in the absence of better opportunities of emigration and of industrialism. Thus, the whole problem of consolidation is connected with the reform, not merely of the land and revenue, but also of the present-day practice of Indian farming.

The maintenance of the small family holding, however, no longer can be left either to voluntary mutual transfer or to co-operative consolidation, but must be tackled by legislation. Throughout the country, wherever the land is fertile, the constant subdivision of property that takes place tends to make the income derived from the holding less and less adequate for the needs of the family. The climax of absurdity has been reached in many districts of the Punjab, the United Provinces, Bengal, Bihar, Orissa and the Madras Presidency, where the average size of the holding is hardly more than an acre or two. A forward scheme of consolidation is the crying necessity of Indian agriculture. First, the economic cultivation unit must be determined region by region, and the law should protect this unit against further subdivision. The extent must be such that a family of medium size can cultivate it effectively, and in any case it must not be less than three acres. There will be enormous social and legal difficulties to overcome before an economic family holding of this size can be constituted. But, if such difficulties cannot be faced today, they may be overcome a few decades hence. Sooner or later the country must adopt compulsory restripping operations so as to establish an area suitable for normal small cultivation. The incredibly small scale in which cultivation is now carried on can hardly be called normal farming. Therefore, the amalgamation of small holdings, provided the total area does not exceed the size of the economic cultivation unit, must be deemed a necessary return to the normal. Each

cultivator participating in the re-stripping might receive, out of the re-grouped area, in exchange for his old property, an area of land of equal value and equal quality with that which he possessed before the exchange. At the time of re-stripping, the law might also effect the liquidation of all easements and the regulation of roads and paths, as well as the provision of a general constructive plan for the rural unit created by the re-stripping of the lands.

### PURCHASE OF ZAMINDARI RIGHTS ON BEHALF OF TENANTRY

To secure land and provide money for such a programme legislation might also be necessary for dividing portions of *zamindaris* or great estates among peasants and landless men. Agrarian reform on such lines has been effected by drastic legislation in most countries in Central and Eastern Europe. In Ireland and Scotland such reform was made at an earlier date by a series of cautious land laws. The Irish Land Act of 1909 and the Scottish Small Holders Act of 1911 have a compulsory clause, authorising compulsory acquisition of land for the purpose of constituting small holdings. In Ireland the Act allows the landlords to sell their rights in land held by the tenants for a guaranteed price paid by the Government, and the tenants to buy their farms, paying for them by easy instalments. If the owner does not accept the final offer of the Estates Commissioners the land is acquired compulsorily. Similarly land in West and South Ireland may be requisitioned by the Congested Districts Board.

In Bengal and Bihar expropriated *zamindars* might be compensated in a similar manner while the new small owners could be allowed to pay by easy instalments at least part of the price of the land they needed. The Government would advance the amount for the expropriation and be repaid by the purchaser by means of annual repayments to include interest and a quota of the repayment of the principal. Easy and cheap facilities of

credit should also be supplied by the State, so that the tenant might start work on his newly acquired holding without any handicap of indebtedness. The problem is very urgent, and an early solution is imperative. If the experience of the smaller agricultural countries of Europe is to have any lessons for us, the solution lies in legislation aiming at the preservation of the greatest possible number of independent holdings; first, by preventing any land belonging to the peasantry being added to the landlord's estate; secondly, by providing against holdings being reduced, by the detachment of parcels, below the limit which in existing circumstances must be considered necessary to ensure that a family shall find full occupation upon them; and, thirdly, by compulsorily acquiring land from landlords or under-tenure-holders, who hold large estates and who would be compensated by the State. The State should obtain a portion of the compensation cost from the new owners in easy instalments.

In Madras and in Bombay the introduction of special legislation to promote restripment and consolidation should be least difficult, because questions of tenancy right do not there complicate the situation as they do in the North. Indeed, preliminary experiments in restripping and amalgamation should meet hardly any difficulties at all in Bombay and Madras, where even now the village *panchayats* have kept alive the tradition of mutual transfer of holdings. The assessment of a fair land revenue which does not encroach upon the cultivator's standard of life and comfort would thus be facilitated. It should be determined by the same principles which govern fair rents in the permanently and temporarily settled tracts. The State, in estimating the net produce, should make a liberal allowance for the true and full expenses of cultivation, the labour of the cultivator and his family, depreciation of agricultural capital, and insurance against the inevitable risks of agriculture in the Indian climate; it also should return the land revenue in the form of benefits which may increase the efficiency as well as the comfort and amenities of life of the cultivator.

MODIFICATION OF OCCUPANCY STATUS AND  
RECOGNITION OF SUB-TENANTS

The status and rights of the tenants on the permanently and temporarily settled estates should gradually approximate to those of the *ryotwari* cultivators. A permanent and heritable right of use and occupancy of land will gradually accrue, either by continuous occupation for twelve years, combined with regular payment of rent, or by a specific grant of the State as in the case of the Central Provinces cultivator. Such a permanent right was enjoyed by the cultivator under time-honoured customs in India. The present condition of agriculture demands, however, a modification of the occupancy status in one or two directions. Under-cultivation and misuse of the land are too common in the case of permanent tenure-holders and occupancy tenants who are entrenched within their own rights; and cases are also frequent where landlords, desirous of making a permanent improvement of the land, cannot undertake such a measure on account of the ignorance or perversity of the tenant, who refuses to recognise such an improvement and pay an enhanced rent for it. In the interests of scientific agriculture, the occupancy system should be altered so that the tenant may not acquire a permanent and heritable right to neglect and impoverish the soil. Perhaps the recent share tenancy agreements of Italy, which define the duties of both landlords and tenants, might be helpful in prescribing the conditions of permanent tenure. The agricultural drawbacks of a system in which the legally protected peasant becomes a mere rent-receiver are also obvious. At present the occupancy status can be enjoyed by only one person in a long chain of sub-infeudation. We have seen already that the right frequently passes into the hands of a person other than the cultivating tenant, resulting in friction and economic wastage. The framers of the Bengal Act

of 1885 contemplated the *ryot* to be a person who would actually till the soil. They laid down that there should be one grade of *ryot*, the genuine cultivator. Measures were devised to discourage subletting by *ryots*, but these have failed in their object. As a result of the license given for subinfeudation, there is a great danger of the extinction of all occupancy privileges with the genuine *ryot* class. The so-called *ryots* have been converted virtually into middlemen, and the actual cultivators into under-*ryots* without any security, almost into tenants-at-will in the eyes of the law as it now stands. The practice of subletting and subinfeudation has grown considerably, not merely in Bengal but also in all *zamindari* provinces, in spite of various restrictions imposed upon this practice. The capture of occupancy privileges by the middle and money-lending classes, and the lowering of the status of the peasantry now have social as well as political significance. The situation can only be remedied by more thorough-going measures for the prevention of subletting, and by the recognition of the inferior class of under-*ryots* and agricultural partners as occupancy tenants with all the privileges belonging to them. Occupancy rights thus should accrue to several grades of tenants simultaneously. An excellent precedent is afforded by the Central Provinces Tenancy Act.

## RESTRICTION OF LEASE, MORTGAGE AND SALE

One of the chief causes of agrarian complication has been a policy of drift with regard to the transfer of protected tenant right. Unrestricted transfer is a newly acquired right imported from the West and is entirely opposed to ancient tradition and custom. On the permanently and temporarily settled estates the privilege of the landlord to refuse his consent to transfer and withhold recognition of the incoming cultivator's status has

encouraged illegitimate exactions as well as litigation. Such legal restriction as exists has contributed only to lower the money value and lessen the security of the protected tenant right. For example, while an arbitrary enhancement of rents is checked by the civil court in Bengal and Bihar and the settlement operation in Agra, Oudh and the Central Provinces, the landlord has everywhere sought to defeat the tenancy law by allowing rents to continue at a low figure and to exact premiums on new leases of surrendered holdings or on the leasing of the land for the first time. Such premiums represent capitalised rent, and the opportunity of premium-hunting varies with the privileges of the landlord. Thus a periodical tenancy, or the right of the landlord to refuse transfer or lease, has been accompanied by the practice of levying illegal exactions. This practice is now well-nigh universal but has grown with the new protective tenancy legislation. On the other hand, free transfer has led to agricultural unsettlement in the Deccan, Punjab, Chota Nagpur and the Central Provinces. As long back as 1879 the Dekkhan Agriculturists' Relief Act was passed to cope with agrarian discontent in four Deccan districts—Poona, Satara, Sholapur and Ahmednagar. The Act provided for the appointment of a special judge and numerous councillors who were empowered to investigate mortgages and similar alienations of land, to revise the terms of contract, and to arrange for an equitable settlement of claims, with a view to restoring the original rights of the occupants. The greater part of the Act was extended to the remainder of the Presidency in 1905. Reports indicate that the Act has had the desired effect of protecting the revenue-paying classes from the encroachment of non-agriculturists and that, although it has restricted credit, it has not done so to the extent of hampering agricultural operations. The Bombay Land Revenue Code Amendment Act of 1901 created a special tenure known as the restricted or non-transferable tenure. Under this Act the Collector is authorised to grant the occupancy of lands for limited periods, or on such conditions as he may think necessary, the principle of these being that the occupant cannot alienate his

land without the previous permission of the Collector. The conditions of the non-alienable tenure are designed to meet the circumstances of the wild tribes, the depressed castes and other classes of cultivators who are known to be backward or improvident. The Punjab Land Alienation Act, the Central Provinces and the Chota Nagpur Tenancy Acts, all seek to check the serious evil arising from the transfer of land from the agriculturist to the money-lending and professional classes. In the Punjab agriculturist money-lenders, however, have grown in proportion and the Act has not served its entire purpose. The measure has been extremely popular among the agriculturists and unpopular amongst others. In the Central Provinces, occupancy right can be transferred to certain heirs only. Transfer to others requires the *malguzar's* consent, and if made without such consent is voidable. It can also be annulled through the Deputy Commissioner on application by the heirs of the transferring tenant. Though subletting for a year is permitted, occupancy tenancies cannot be mortgaged. Both in the Central Provinces and Chota Nagpur the Acts in the main have succeeded, though there has been some contraction of the cultivator's credit.

In the new agrarian legislation which has created small family holdings in Central and Eastern Europe, sale or transfer has been restricted most rigidly. The law of Prussia makes State approval compulsory for transfer of real properties. In many cases, in order to create a charge on the family holdings, the consent of the State is necessary. Mortgages and land debts may only be entered in the form of debts repayable by instalments and not capable of being called in; the mortgage of land debt as a rule is discouraged or its amount limited by legislation. The grantee of the family holding may require the consent of the State to the entry of a right of usufruct (tenancy), a land easement, a limited personal easement, or a real encumbrance, when it is compatible with the rules of normal working, and it does not diminish or impair essentially the effective character of the family holding. A limit of indebtedness may be entered for mortgages, land debts and land

revenue encumbering the family holding. Distraint on the family holding in respect of a personal debt may be disallowed.

In Bombay the restricted or non-alienable tenure has already been created by the State. In the Central Provinces the subletting of land is prohibited as drastically as in the Russian Agrarian Code. The prohibition of mortgages containing a foreclosure clause is already a part of the Punjab Land Alienation Act. The Usurious Loans Act of 1917 and other measures have enabled the civil courts to go behind contracts and mitigate the hardships of the indebted peasantry. In different provinces the transfer of the cultivator's holding is sought to be restricted to agriculturists of the same village. In Bengal, as far back as 1880, the Rent Law Commission recommended that occupancy holdings should not be mortgaged and that the right of occupancy, though saleable in execution of a decree for its own rent, should not be saleable in execution of any other decree.

Gradually but surely measures restricting transfer, mortgage and lease will be deemed necessary in every province if the small cultivating proprietor is not to give place to a non-cultivating, rent-receiving and moneyed class. The distribution of land among the several classes, the character of the people, the facilities of credit to which the cultivators have access,—all these will determine both the form as well as the character of such restrictions. In the *ryotwari* tracts the legislation to protect small holdings by means of restrictions on lease and transfer, and by agricultural loans, grants and subsidies, will be in keeping with the theory of State landlordism. In a country inhabited by a dense population economic adjustment can be brought about only by intense small farming. The State can assist a great deal through agricultural associations, credit banks and direct subsidies. But small farming cannot thrive unless and until we accept the principle that no one may own any greater area of land than he can cultivate by the labour of his own family. This is the dictate of agricultural economics, to which we must listen if we wish to rescue our agriculture from its present stagnation.



REFORM *VERSUS* REVOLUTION

There is a growing recognition by men of varied political and economic predilections that changes in the Indian land system are imperative. The opinion has now spread to all classes of society. Under the pressure of an enormous population upon the land the holdings have come to be so small and fragmented that they can neither utilise the full labour of a family nor can support it even under the existing low standard of subsistence. At the same time the landlord has become a rent-receiver rather than a wealth-producer having ceased to play his old and honourable part in the agricultural combination. Today he neither supplies agricultural capital nor controls farming operations. Below him has developed a class of intermediaries who have profited from the complexities of the present land system and make the difficult position of the actual cultivator still more precarious. This is no criticism, but a summary of the facts. The old system has broken down, and it is imperative that a new system be created in its stead which is adapted to the present conditions and requirements of agricultural and social life. To delay the process of adaptation, whether from fear of angering "vested interests" or from apathy towards the unvocal classes, is to sow the seeds of drastic reform, and, it may be, even of revolution.

---

# THE SYSTEM OF LAND TENURE IN SOME DISTRICTS OF SOUTH BIHAR

BY

CYAN CHAND,  
*Patna University.*

## SUMMARY

This Paper deals with the system of land tenure in Patna, Gaya, and Shahabad districts. The system has got some distinctive features of its own, but is a part of the land system of Bihar, the most outstanding feature of which is the dominant position of the landlords in the rural economy of the province. All landlords in these districts are not big. Some of them are, as a matter of fact, very small landholders, but the rent roll of the districts amounts to 371.5 lacs, and is unearned income in every sense of the word. The tenants are divided into three classes, i.e., fixed-rate tenants, occupancy tenants, and non-occupancy tenants. A larger portion of land is held by the occupancy tenants whose immunity from rack-renting is, however, considerably impaired by the system of produce rents which prevails in these districts to a very large extent, and causes a lot of hardship to the cultivators. Produce rents are generally assessed either by the appraisement of gross outturn or the division of yield on the threshing floor. The system of produce rents leads to inefficient cultivation, and is as much detested by the tenants as it is highly prized by the landlords. The only justification given for its existence and continuance is the necessity of keeping private irrigation works, which are of great importance to agriculture in these districts, in a state of good repairs. Private irrigation works are of great antiquity, and constitute a remarkable system by which water resources of these districts are turned to the best account. They are controlled by the landlords who are responsible for their maintenance. But the unity of control, which is essential for an effective fulfilment of this obligation,

is lacking on account of the sub-division of estates; and owing to the neglect of these works by the landlord special legislation has had to be undertaken to ensure their proper upkeep. Produce rents can be commuted into cash rents, but the Government has till now followed a very halting policy in this respect. Incidence of cash rents is very high in these districts on account of the standard set by produce rents. The landlords are realising a number of unauthorised exactions. The situation is extremely unsatisfactory, and there is no prospect of improvement in the near future.

---

The close connection between agricultural prosperity and the system of land tenures is a fact which is borne out by current experience and testimony of history in every country; and yet such are the exigencies of political situation in India that the Commission which was appointed to examine and report on the present conditions of rural economy, and to make recommendations for the improvement of agriculture and promotion of the welfare and prosperity of rural population was precluded from making any recommendations regarding the existing systems of landownership and tenancies. It is, however, a matter of common knowledge that so much depends upon the satisfactory adjustment of different rights in land that it is idle to expect any material improvement of agriculture when the rural economy presents the appearance of a house divided against itself. It is proposed to illustrate the validity of these statements by giving a brief account of the system of land-tenure in three districts of South Bihar, and examine its effects on the economic and social life of the people. The system described in the following paragraphs is in many ways distinctive, and this fact lends to its study a special interest both from the theoretical and practical standpoints. It is not easy to convey a vivid idea of the far-reaching effects of the system on the whole social structure. It is the one outstanding fact of the entire organization, and dominates its working in a manner which can be fully appreciated only by first-hand knowledge of the actual conditions. It is, however, possible to give a fairly correct account of its salient features

by collating and interpreting the relevant facts and that is all that can be attempted in this Paper.

The districts whose land tenures are the subject-matter of this Paper are Patna, Gaya and Shahabad, and make up what is known as the Patna Division. The total area of Bihar is about 42,000 square miles, and its population 23 millions. The area of Patna Division is about 11,000 square miles and its population about 5·5 millions, or in other words both in respect of area and population these districts are, roughly speaking, one-fourth of Bihar. Being one of the most densely populated tracts in the whole country, the competition for land is very acute, and accounts for the fact that in spite of various measures adopted to check the ruinous consequences of free play of economic forces, the situation is far from satisfactory and the masses have to carry on unequal struggle against very heavy odds. The weight of numbers would in itself make the struggle of existence a dreary pursuit under any circumstances, but here absence of any means of subsistence, other than agriculture, and the existence of a large class of persons, who are in a position to levy a heavy toll on the income of the people without any obligation to make any return in any form, renders the position almost desperate. This general conclusion, however, has to be supported by facts, and it is necessary to present them in a concise and intelligible form.

The system of land tenure in these districts has some special features of its own, but it is a part of the system which is found in Bengal and other districts of Bihar, and has been shaped into its present form by three well-known legislative measures. The first of those is the Regulation I of 1793 by which the decennial settlement was declared permanent, and the Zemindars granted the right of property in the soil in perpetuity. This was done as the author of this measure was of opinion that it was "the most effectual mode of promoting the general improvement of the country." This decision has been characterised as a monumental blunder, and its social and economic consequences are now deplored by most of our progressive thinkers. This view may

not be acceptable to all of us, but very few can now maintain that it has proved what the Court of Directors called as 'a productive principle of management' in their despatch of the 19th September, 1792. The Regulation I of 1793 has given to the provinces of Bengal, Bihar and Orissa a land system, the most conspicuous feature of which is the dominant position of the landed-magnates, some of the biggest of whom are found in these three districts of Bihar. The sub-division of property rights which has been going on since the original settlement was made, has brought about disintegration of estates and increased their number enormously. In Patna the number of estates has doubled since 1876 and is, according to the Record of Rights, 13,725. In Gaya the number of estates has increased from 4,411 in 1869-70 to 9,026 in 1916-17 and now must, of course, be still larger. Though the number of estate-holders is not increasing in anything like the same proportion as number of estates, as the word 'estate' in the Record of Rights has got a technical meaning, there is not the slightest doubt about it that the proprietor is now in a very large number of cases a very small landholder, and represents an interest which has nothing in common with the big landed estates. The smallest estate in Patna covers an area of one-ninth of an acre, and its annual land-revenue demand amounts to 10 pies. But in spite of this sub-division of properties, there still exist very large estates and occupy a predominant position in the rural economy of their districts. In Gaya there are estates like Tikari, Maksudpur and Deo, in Patna Amavan and Mansaurah, and in Shahabad Dumraon, whose rent roll amounts to several lacs, and their proprietors are big landed-magnates occupying a position of great power and authority in the districts to which they belong. Though the cleavage between the small proprietors and cultivating classes is not very marked, the former do not cease to be a burden on land on that account. On the other hand the experience shows that it is these small proprietors who exercise their authority in the most tyrannical manner, and rackrent their tenants to an extent which is unknown in the big

estates. They belong to families that have known better days, and try to make up for the reduction of their incomes by putting up the screw several notches higher. The rent roll of these districts amounts to 371·5 lacs, and the annual land revenue demand is about 42·5 lacs, or, in other words, the landlords retain in their own hands a sum of 329 lacs. This is the contribution of the Regulation I of 1793 to the "ease and happiness of the people," which was the prime concern of the authorities in conceding the fixity of the revenue demand.

It is a matter of common knowledge that in 1793 nothing was done to protect the tenants against the landlords, and for sixty-six years the cultivators were exposed to the full blast of what are generally called economic forces, which of course means that landlords could do what they liked with them. The history of this period is, in the words of a revenue officer, "a melancholy record of embittered relation between landlord and tenant." It was, of course, the tenant who had to suffer on account of this bitterness and the conditions of insecurity and oppression under which he had to live left him only bare subsistence and not even that in the case of Bihar tenantry. By the Acts of 1859 and 1885 two successive attempts were made to get a square deal for the cultivators. The agricultural population was divided into tenants holding at fixed rents, tenants holding land for 12 years and tenants holding land for less than 12 years. The first two classes were given a privileged position. The fixed-rent tenants were effectively protected against ejection and enhancement and the tenants who had held land for twelve years or more (known as the occupancy tenants) were also given a position of security. Their rents could only be enhanced under specified conditions. The enhancement was allowed on the ground of increased fertility of land due to the investment of capital by the landlord or by fluvial action, rise of prices, or because tenants were paying below the prevailing rate of the rents paid by tenants of the same class for land enjoying similar advantages in neighbouring villages. The rents could also be reduced in the event of a

fall in the local prices of staple food crop or permanent deterioration of land on account of natural causes. The existing rents were presumed to be fair and equitable, enhancement was allowed once in 15 years, and its limit was fixed at 2 annas per rupee. The non-occupancy tenants are the tenants who do not fall under the other two classes. They cultivate under certain conditions and pay rents agreed on between them and their landlords. These two Acts govern the condition of tenancies in these districts. Under their provisions most of the tenants here have acquired occupancy rights. The subjoined statement gives percentage of the occupied area of these districts held by the proprietors in their own cultivating possession, tenants at fixed rent or rent-free, occupancy tenants, and non-occupancy tenants.

		Proprietors.	Tenants of fixed rent and rent-free tenants.	Occupancy tenants.	Non-occupancy tenants.
Patna	...	13.6	2.2	83.9	0.3
Shahabad	...	16.0	15.8	67.5	0.7
Gaya	...	13.2	2.9	83.2	0.7

The bulk of the occupied area being in possession of the occupancy tenants one would expect them to enjoy the security of tenure and immunity from rack rents. The agrarian situation here, is, however, profoundly affected by the prevalence of produce rents. These provisions of enhancements do not apply to these rents. In 1885 it was proposed to impose restrictions on the enhancement of produce rents as well, but it was argued that in view of the necessity of maintaining private irrigation works it was not desirable to do anything which might adversely affect the upkeep of the water reservoirs and channels. Produce rents are determined by custom, and it is necessary to understand the methods by which they are assessed and collected to appreciate the distinctive features of land tenures in these districts.

In Gaya 67.9 p.c. of the land cultivated by the occupancy tenants is held on rent in kind, in Patna 44 p.c., in Shahabad

21 p.c. Out of the total area of 3,809,450 acres of land held by the occupancy tenants in the whole division 1,790,949 acres are held on produce rents. This gives us a percentage of about 47·5. The percentage so held in other districts of Bihar is as follows:—

Saran	...	...	...	4
Muzaffarpur	...	...	...	7
Darbhanga	...	...	...	8
Bhagalpur	...	...	...	9
Monghyr	...	...	...	19

These figures make it quite clear that these three districts constitute in respect of the prevalence of produce rents a well-marked area in themselves, and it is this fact which makes the study of their land tenure a matter of special interest. It is, therefore, necessary to give a short account of the actual working of the system of produce rent. Produce rent is realised in three forms. The first is Mankhap. The cultivator pays a fixed quantity of grain which does not vary with the outturn. This quantity is generally high and varies from four to eight maunds per bigha. This system is found on the privileged lands of the landlord or those which have been bought by him at auction, or have fallen into his hands by failure of heirs. This system bears very heavily on the tenant, but being confined to a very limited area does not in itself present an evil of very serious magnitude. The more common system of produce rents vary with the outturn of land and their outstanding feature is the method by which the yield of land is estimated in a particular year. The share of the landlord is assessed in two ways, viz., by appraisement ordinarily known as Dhanbandi or by division for which the common word is Batai. Of these the former is more important. The appraisement is done when the crop is ripe, but before it is cut. The actual details of the system vary from estate to estate. But it is generally the Gumashta or the agent who with the help of the measurer and the writer does the actual work. He is also accom-



panied by Sális, which literally means the arbitrator, who, however, is not an independent person but a nominee of the landlord. The cultivator is, of course, present at the time of appraisement and may in some cases be assisted by Jeth-Ryot or some prominent cultivator of the village. This person, though nominally expected to watch the interests of the cultivators, is also generally under the thumb of the landlord, and the former cannot count upon him to protect him against the exactions of the latter. The Gumashta is the real appraiser, and a great deal depends upon the way he does his work. Sir William Duke wrote in his Administration Report of one of the biggest estates in Gaya when he was the Collector of that district, "If the Gumashtas go in with the Ryots it is very easy for him to cheat the proprietors to a very great extent. If, however, they are not on good terms with the Ryots, they may grossly overestimate. When they have much work to do they can bring pressure to bear by neglecting to appraise until the crops are wasted by delay." He, not unoften, succeeds in getting the better both of the proprietor and the cultivator and helps himself to an appreciable portion of the produce of land. The ordinary procedure of appraisement is that the quantity of grain in the crop is estimated by the landlord's agent, and if the tenant accepts the estimate, the matter is considered settled. If there is, however, difference of opinion between the parties and even the mediators cannot bring about a compromise, a test crop-cutting takes place, landlord selecting the best part of the field and the tenant an equal part of the worst part. The produce of both is reaped, threshed, and grain is then weighed. The whole produce of the field is calculated on the basis of this test, and entered in the field register known as the Khasra. The cultivator is then at liberty to reap and harvest the crop at his own convenience. The other system of produce rent, i.e., Batai, is simpler. This is resorted to in some cases as an alternative to appraisement when the parties cannot see their way to come to an agreement regarding the outturn, but is a customary method of ascertaining the produce rent payable to the

landlord in quite a large number of cases. The grain is collected on the threshing floor, winnowed and then the division is effected between the proprietor and cultivator. This system is not liked by the landlords as it affords the cultivator opportunities of removing the grain in a clandestine manner, and it means bother and expense to have to watch the crop while it is growing. Landlord takes half the gross produce in case of division, and rent in these cases is always paid in kind. Landlord's share is also half of the gross produce when the total outturn is appraised, but it is not uncommon for them to collect *Neusat* or 9/16 of the gross produce as their share which is called *Hakimi Hissa*. Both in the case of *Dhanbandi* and *Batai* a number of allowances have to be made out of the gross outturn for the village artisans, etc., before the landlord's and tenant's share is determined. In the case of appraisement rent is always paid in cash, and its money value is calculated at the current money prices, though cases are not unknown when the rates higher than the prevailing market prices are used for the purpose.

The system of produce rent has given rise to very grave abuses. It has been defended by some very eminent men. Among those two well-known names are those of Dr. Buchanan and Dr. Grierson. The two merits of the system which have been urged in its favour are its elasticity and the inducement which it gives to the landlords to invest their capital in the maintenance and improvement of the works of irrigation. There is no denying the fact that their advantages are real, and can, if there is a fair measure of co-operation between the landlords and tenants, justify its continuance. But unfortunately this essential condition of its success is conspicuous by its absence, and the system as it is working today is extremely odious to the tenants and has been condemned by all revenue and settlement officers and other unbiased students of the subject. The tenants prefer very high cash rents to produce rents and resist attempts to commute the former into the latter once they acquire the right to meet their obligations in cash, and the fact that the landlords

as a class cling tenaciously to produce rents, and do all they can to perpetuate it, is a conclusive evidence of its being detrimental to the interests of the tenants. The system lowers the standard of husbandry. The crop-testing experiments carried out by the settlement officers have shown, the crops on lands held on produce rents are distinctly poorer—the yield being at least 10 p.c. less if not more—and the methods of cultivation slovenly and inefficient. A great deal of land is left fallow as it is not profitable to cultivate it under the system of produce rent. In spite of the fact that the law requires that receipts should be granted in all cases, the provisions of law are generally ignored, and in the case of the produce rents even the Kacha receipts are not granted; and one of the most powerful weapons in the hands of the landlords to cow down the refractory tenants is filing of rent suit for arrears of three years. As soon as the tenants apply for the commutation of produce rents or in some other way take a concerted action against the highhandedness of the landlord, they are at once brought to their knees by the rent suits. The claims are grossly exaggerated and the only evidence in their support are the Khasras or the field-registers which are in almost all such cases fabricated documents and utterly unreliable on that account. The courts are not in a position to ascertain the correct yield of land, and although rent decreed falls short of exaggerated claims, they are even then quite high and press very heavily on the tenants. The cost of litigation and the rent decreed have brought ruin on thousands of tenants, and such cases serve as a warning to others who may be inclined to assert their will against that of their masters. Failure to grant receipts is a penal offence and every year some landlords are fined for infringement of provisions of the law (in year 1926-27 103 such cases were laid in the law-courts) but this does not improve the situation, and the practice of not granting receipts is not affected thereby. It means work for the law-courts. The lower civil courts are almost all the time engaged in disposing of the rent suits, and they are so heavily burdened with work, that most of the judicial officers

have piles of undisposed of cases with no prospect of their being able to deal with them for months to come. Sir Ashley Eden described the Bihar peasantry more than forty years ago as "poor, helpless, discontented men, tenants of the richest province in Bengal, and yet the poorest and the most wretched class in the country." The misery of the tenants is partly their own fault, but the land system is also responsible for it in no small measure and produce rents are the most undesirable feature of the agrarian situation.

The law makes provision for the commutation of produce rents. Under section 40 of the Bengal Tenancy Act the officers deal with such applications, and the two factors generally considered in granting commutation are cash rents for similar lands with similar advantages, and average realization of the landlords for ten years. There has been some decrease in the area held on produce rent, but the reduction is not appreciable. The application for commutation can be refused by the Collector in the interest of the Ryots, and there is no appeal against the refusal to grant commutation. The one reason often urged against the conversion of produce rents into cash rents is that the continuance of the former is an essential condition of the maintenance of private irrigation works which are of such vital importance to the welfare of the agricultural population of these districts. The argument is specious and may be briefly examined. These districts have a system of irrigation of their own, which is of a very remote origin. The importance of this system is indicated by the following figures:—

	Percentage of irrigated area to cropped area.	Percentage of area irrigated by well.	Percentage of area irrigated by Govt. channel.	Percentage of area irrigated by private channel.	Percentage of area irrigated from tanks and Ahars.	Percentage of area irrigated from other sources.
Patna ...	59'33	6'80	2'23	21'02	24'35	4'93
Shahabad	42'12	4'85	22'28	3'83	10'26	70
Gaya ...	56'83	5'98	4'29	15'96	26'83	1'77

Out of the total cropped area of 4,648,156 acres of these districts

2,378,182 or about 50 p.c. is irrigated and a very large part of it is irrigated by private canals and tanks, etc., which are controlled by the landlords who are also liable to maintain them in good repairs. The general slope of this area is from south to north and it is comparatively rapid, the average fall northwards being 6 to 4 feet in the mile. A number of rivers intersect the district from south to north. These rivers are swollen torrents after heavy rainfall in the hills, but on account of their rapid slope and sandy beds water is carried through these districts or percolates down the sands. In order to prevent water being wasted in this way long narrow channels are led off from the rivers by means of which the river water is conveyed to the fields, and where these channels cannot be constructed water is impounded in a series of catchment basins, which are known as the Ahars and are formed by running an embankment across the line of drainage and by two side embankments running up the line of the drainage. These channels with their distributaries and reservoirs constitute a remarkably ingenious system of irrigation by which rain water is stored, distributed from field to field, and retained in them by a network of low banks. These channels and embankments require to be repaired constantly, and though petty repairs are done by the cultivators themselves, their maintenance involves considerable expense; and it is generally assumed that without the system of produce rents their upkeep would be neglected by the landlords. There are certain facts which, however, point to a different conclusion, and have to be taken into account. Dr. Grierson held that produce-rent system arose from the fact that the landlords controlled irrigation, but now it has been definitely established that historically there is no connection between the produce rents and irrigation system. An examination of figures of area held on produce rents and those of cropped area irrigated from private sources shows that one is not the function of the other. In a subdivision like Aurangabad in Gaya district the disparity between the two is very striking, produce-rent area being 87 p.c. of the cropped area and per-

centage of area irrigated by private sources being only 27 p.c. Several of these canals and channels are almost pre-historic in their origin, and the number of those made in recent years is practically negligible. They irrigated hundreds of villages and their proper upkeep requires a unity of control which has been seriously impaired by the subdivision of proprietary rights. As a matter of fact these works have already been neglected, and it has been found necessary to provide for their maintenance by new legislation. By the Private Irrigation Works Act of 1922 the Collector on being satisfied that an irrigation work is not being properly kept up, can call upon the person responsible for its maintenance to repair it within a specified time, and in the case of the failure to carry out the necessary repairs within the given time, he can have it repaired either by other persons who are benefited by the work or some other agency and recover the cost from the landlords concerned. This measure should in due course lead to the majority of important systems being brought under the administration of the Government, and make it possible for them to be replaced by one system worked out with an eye to the district as a whole, and avoid the waste of water which now takes place on account of each system having been constructed to answer the irrigation requirements of a particular set of villages. The cost of maintenance of these works of course, varies according to the nature of channels and embankments, but is not high, and cannot be made a reason for charging produce rents. The irrigation system being under the control of the landlords gives them a lot of power in the rural economy of these districts, and it has in practice been used to the great detriment of the interests of the tenants. The Government has till now followed a very halting policy in respect of the commutation of produce rents, which has rendered the provisions of the Acts of 1859 and 1885 practically negatory on that account so far as the produce-rent lands are concerned. The position is extremely unsatisfactory and this archaic system of land-tenure is in no small measure responsible for the fact.

The incidence of cash rents in these districts is also very high, and is accounted for by the fact that produce rents set a standard by which all rents are judged. The following table gives the comparative figures:—

Name of the District.			Incidence of Rent per acre.
			Rs. a. p.
Champaran	...	...	1 15 0
Muzaffarpur	...	...	3 12 0
Darbhanga	...	...	3 12 0
Saran	...	...	4 5 0
North Monghyr ..	...	...	2 15 0
Purnea	...	...	1 15 0
Bhagalpur	...	...	2 10 0
South Monghyr...	...	...	3 8 0
Patna	...	...	7 8 9
Shahabad	...	...	4 1 0
Gaya	...	...	6 1 0

In Shahabad rents are higher than most of the other districts in Bihar, but in Patna they are almost twice as high as the average of the rest of the province. The rents of the non-occupancy tenants and under-tenants are, of course, higher than these rents, but the land cultivated by them is not very large, and their position in the land system does not call for a special mention. There are, however, two other cash-rent tenures which are of considerable importance. One of them is known as Chakathi, and means temporarily commuted produce rents. The conversion is temporary and it is at the option of either party to revert to produce rent at the end of the stated period or at any time if this lease is not made for a definite period. These tenures, particularly those which are known as the Bemjadi, *i.e.*, in which period is not specified, enable the oppressive landlord to enhance rents to any extent, and are being

used to defeat the purpose of the Tenancy Acts. The other tenure which is also important is the Thikadari tenure which is resorted to by the impecunious or ease-loving landlords, and is in effect a system of rent-farming. The system is the cause of a great deal of injustice and misery, and also gives rise to many complicated civil suits. If there is to be a choice of evils, cash rents are certainly better than produce rents, but they are nevertheless an evil, and their prevalence cannot but be regretted from the standpoint of efficiency of production or social justice.

The economic forces are all working against the tenants. The struggle for existence is so intense, pressure of population so heavy, the average Ryoti holding so small, and the dependence of the cultivators on the landlords for the means of irrigation so complete that the tenants have to submit to a number of unauthorised exactions known as Abwabs. They are known by different names, but are really the price which the cultivators have to pay for being allowed to till their holdings in peace and without vexation on the part of the landlord or his agents. There are Abwabs for being allowed to sit in the office of the landlord, for being allowed to get up and go away, for the tour and fuel expenses of the landlord and for numerous other purposes. These exactions are illegal, but cannot be stopped under the existing economic circumstances.

This Paper may be concluded with a general observation, and that of a very melancholy character. The situation in these districts and the rest of Bihar is, so far as the land system is concerned, extremely unsatisfactory, and the outlook very depressing. The rent-receiving class occupies a dominant position, but has not done anything for the improvement of agriculture or the general well-being of the people. The individuals belonging to it being in receipt of almost an assured income are lacking in initiative and enterprise, and any one who has been in this province for some time cannot help realising the unwholesome effect of the land system on the mentality or character of



the people. It has lowered the moral tone even of the higher classes, and produced a state of contentment among them which is not less pathetic than that of the masses even though it is not accompanied by a condition of economic distress. The apathy of the land-owning classes towards the development of their estates or discharge of their social obligations shows no sign of passing away, and even the highly educated landlords exercise their authority without any regard for the tenants or improvement of the rural economy in general. A few honourable exceptions are, of course, there, but even they are deterred from investing capital in the improvement of their land on account of the operation of the tenancy laws. The object of the tenancy legislation was to protect the cultivators from the evil effects of reckless competition. The tenants are leading a sheltered existence within certain limits, but the fact makes the use of the up-to-date methods of cultivation or the inauguration of improvements which are beyond the financial capacity of the tenants almost impossible. The tenants themselves are utterly helpless in face of the tremendous forces with which they have to deal, and there is no way of stimulating them to a higher level of organised effort or socially useful activity. The Agricultural Commission is of opinion that more intensive cultivation is the only method of agricultural progress, but if the system of land tenure remains what it is, there is no prospect of any improvement for many years to come in this province. The desperate conclusion is that only the methods by which the "green" revolution has been brought about in Europe in the post-war years can succeed, against the accumulated resistance of unenlightened selfishness, ignorance, and complicated land legislation. The time not being ripe for any radical change of this description, we can only hope against hope that something will turn up, and in the meanwhile the stagnation of agriculture and the people connected with it must continue.

---

# LAND TENURE IN KUMAON

BY

D. PANT,

*Lucknow University*

## SUMMARY

Agriculture in *Kumaon* is carried on in terraced fields. Religion prohibits higher caste people to plough. The ploughing is done by untouchables.

*Mahadwari* system is in vogue and the *Padhan* plays an important part in the village life.

The pest that blasts the village life is the *Patwari* who in the hills combines with his revenue powers large police powers which he often misuses.

The *Khaikars* have unjustly been denied their full proprietary rights and *Sirtans* are debarred by custom to attain occupancy rights. The Government can do much to better their lot.

The New Settlement in Almora which aims at increasing the revenue by 35 per cent, without taking into consideration any factor, is illogical and uneconomic.

Changes in the laws of Succession and in the granting of *Nayabad* are very necessary. Bad customs like the *Dhanti* system should be suppressed.

A more humane outlook on the part of the Government would solve many of the problems of the teeming millions who are loudly calling for redress of their grievances.

---

### **A Village in Kumaon.**

A cluster of houses round any source of water—be it a rivulet, a stream or a *Naula*—form a village where agriculture is carried on in terraced fields.

The houses of the higher castes are built on best sites and the people of the depressed classes live on insanitary low levels.

Each village in Kumaon forms a separate *Mahal* which is held under a separate revenue engagement, that is to say, the proprietors of the village are jointly and severally responsible for the total assessment. The origin of the proprietors is traced either to long-established hereditary occupancy; to a grant from the State; or to purchase from some former proprietor. Under the Chand Rajas and Gurkha Rulers all servants of the State received a grant of land by way of remuneration for their services.

The descendants of the above-described grantees form the first class of landholders. A second class of landholders derive their title solely from long-established occupancy: this class is composed of aborigines of the mountains, while the former consists almost universally of descendants of emigrants from the plains. A third class of proprietors created during the Gorkhali regime, are those who in consideration of receiving the proprietary title, have brought waste land into cultivation. The paramount property in the soil rests with the sovereign. In the time of the Rajas and Gurkhas a village was given to an astrologer, doctor, a cook or a barber, and the cultivators in possession, whatever their former status, became to all intents and purposes the cultivators of the new-comers. The administration of each *Mahal* rests with the *Padhan*. He is the ministerial executive officer of the village and is entrusted with the collection of the land tax from his coparceners and with the supervision of their simple police arrangements, and he is responsible for recording vital statistics of his village. He takes his cue from the *Patwari*, who is a petty Government servant. Not long ago he received Rupees five per month, and was originally a Village Accountant in charge of rent rolls, but he is now a product of *Patwari* school and his pay has been quadrupled. He is the *Sarkari* man on the spot, and by virtue of the police powers vested in him, he often behaves like a tyrant and can arrest on his own authority any Indian in his jurisdiction and to White people he is fawning and subser-

vient. His poor education, and low pay and the wide arbitrary powers that he enjoys make it possible for him to be a parasite on the villagers.

In Kumaon there are five principal classes of land:

*Talaon*—which yields two crops a year.

*Upraon*—which yields three in two years.

*Bagar* or *Baparat*—which is land on the margin of cultivation.

*Banjar*—waste land.

*Nayabad*—which is land secured by reforestation.

Apart from these there is the *Gumth* or *Muafi* land which is dedicated to some Temple or *Gaon Sanjait* which like the "Commons" is utilised as pasture land for the whole village. Irrigation is carried on by *Gul*—which is a channel cut from a rivulet or a spring. The distribution of water from the *Gul* is a source of constant litigation and frequent feuds and breaking of heads.

### Characteristics of a Hill Village.

The social code of the Brahmins precludes them from using the plough-share and the ploughing is done by untouchables, who are called *Haliyas*. The high-caste male agriculturist confines himself to sowing and other kindred work. (The superstition is that man brings better luck than female in scattering seeds.) All other tedious work except tillage falls to the lot of women.

The classes engaged in agriculture are:—*Hissedars*, *Khaikars*, *Sirtans* and *Haliyas*. The *Hissedari* or proprietary rights have already been explained. *Khaikars* are quasi-*Hissedars*—they were either original cultivating proprietors or were made *Khaikar* by a registered agreement given by the *Hissedar* on payment of a premium. The Government also creates *Khaikars* by conferring *Khaikari* rights on tenants who colonise *Nayabad* land.

A *Khaikar* is a permanent tenant with a heritable but non-transferable right in his holding. He pays a rent fixed at settle-

ment which cannot be altered until the second settlement. 15/16 of the cultivable area is held by cultivating proprietors and *Khaikars* and the remainder by *Sirtans*. Out of 15/16, 9/10 is held by *Hissedars* and 1/10 by *Khaikars*. *Khaikari* is terminated by (1) Ejectment for non-payment of rent, (2) Voluntary relinquishment on the part of the *Khaikar*, (3) Dispossession for a period exceeding six months, (4) The failure of the line of succession.

By far the most important units are the *Hissedars*. Much of the vexatious and costly litigation in the Hills would disappear if the *Khaikars* were abolished and merged with the *Hissedar* group. The *Khaikars* are few in number, and as has been already said, they are quasi *Hissedar*. They pay *Malikana* which is 20 per cent of the rent plus the ordinary land tax. This *Malikana* could be capitalised and thus the *Khaikars* could be absorbed by the *Hissedars*.

*Sirtans* are tenants-at-will. No length of occupancy in old measured assessed land gives a *Sirtan* any title to occupancy or *Khaikari* rights. The laws that govern them are highly illogical and they must be amended in order to bring them in conformity with justice. If *Sirtans* are ejected by the landlord, they cannot recover possession. They can only sue for compensation for improvement, or for illegal ejectment because ejectment by notice is unknown in the Hills.

### Settlements in the Hills.

Settlements are based on assumed land values and not on tenant rents, because rents in the Hills do not furnish any reliable basis and also because of the prohibitive expense in maintaining annual records—in fact for these reasons village records are not prepared annually. There are two chief records maintained for settlement purposes. One is called *Phant* which is an abstract village record of rights and revenue roll, and the other is called *Muntakhib* which gives each separate share in detail of fields with their area, soil, classification and location.

Rents are collected in cash as well as in kind and there are two prevalent ways:—

- (1) *Koot* is the cess demandable on the gross appraisement and is received in kind by *Batai* or division of product at harvest time.
- (2) *Nagdi* or money rents.

*The new Settlement in Almora* started its work during the autumn of 1928, and it is expected to end in 3 years. It will cost about 6 lakhs of public funds, apart from the litigation expenses borne by the people. It has a large staff managed by an I.C.S., and a P.C.S., and an army of scribes and subordinate officials. Its avowed aim is to increase the revenue by 35 per cent irrespective of the conditions warranting the same. It shall not revise the papers, but merely follow the rule of Thumb, and thus secure for the Government an enhanced revenue of 35 per cent from the District of Almora. This principle is the negation of all just principles and the people are opposing it tooth and nail. The sensible and the economical way is to arm the Deputy Commissioner with the powers of a Settlement Officer, and give him extra staff, and he can realise his pound of flesh—or better still have recourse to “the farming system” of the Moghuls. That is what the Government action is tantamount to. A just settlement must make a new survey of the land and redress the grievances of the people out of whose pockets the money will flow into the Treasury. To ride rough shod over the people who “toil and eat not” is to refuse profiting from the lessons taught by world history.

#### **Peculiar Features of Succession in the Hills.**

Illegitimate sons are considered legitimate for purposes of succession. If a man takes another's wife or widow and lives with her irrespective of the fact whether he has a wife living or not, the children of the illegal union succeed to the property of the father. The sons born in wedlock get the same share as those born

out of wedlock. This *Dhanti* system is very common in Kumaon among the lower classes. The offspring of the connection become socially equal to all members of the father's *Biradari* when the purchase price of woman is paid off.

### Recommendations.

A careful study of the conditions described above emboldens one to make the following suggestions for the favourable consideration of the Government of the United Provinces:—

- (1) Patwari should at least be a matriculate. He should be put on 30—2—50 rupee-grade. His Police powers should be curtailed.
- (2) *Khaikar* Class should be abolished by merging it with the *Hissedars*.
- (3) *Sirtans* should be given occupancy rights and they should not be ejected without notice.
- (4) The illegitimate sons should be given no share in their father's property. The *Dhanti* system should be declared against Public Policy.
- (5) If possible, in the absence of male issue, the daughter should succeed to the property. The widow should be given full rights over the property in case she is without any issue—male or female.
- (6) In granting *Nayabad* land, due consideration should be paid to the interests of the villages near that land. Loyalty and pull of the purse should not be the only consideration.
- (7) The *Gunth* land holdings should be revised and as far as possible they should be re-vested in the temple. In the past the *Pujaris* by crook got the mutation in their names and thus cheated the temples. This fraud should be ended by forming a trust to manage these Religious Endowments.

- (8) As regards the new settlement that is going on, strict orders should be issued to assess the people after scrutinising the papers and making necessary mutations. Every factor should be taken into consideration before the rent is enhanced. People who pay the piper have a right to call for the tune.
- (9) The agricultural lands within the forest called *Chaks* suffer from so many disadvantages that people have given up cultivating those lands. A more humane set of laws should be passed for these special types of land.
- (10) Co-operative Banks recently started in Almora need drastic changes in their constitution in order to enable them to render service to the people.

The present banks are paper banks. They serve no purpose and are dying out. The inelastic rules and inefficient management must give way before the Banks can play any important role in the rural development of Almora.

### **Pahari (Kumaon) Words and their English equivalents**

<i>Bagar</i> or <i>Baparat</i>	...	Marginal land.
<i>Banjar</i>	...	Waste land.
<i>Biradari</i>	...	Social circle.
<i>Chak</i>	...	Agricultural land within the forest.
<i>Dhanti</i>	...	A kept mistress whose issues are considered legal.
<i>Gaon Sanjait</i>	...	Common land in a village.
<i>Gul</i>	...	Irrigation channel.
<i>Gunth</i>	...	Temple land.
<i>Haliya</i>	...	Plougher. Hence untouchable.
<i>Hissedar</i>	...	Proprietor.



**Pahari (Kumaon) Words and their English equivalents (*contd.*)**

<i>Khaikar</i>	...	...	Quasi-proprietor.
<i>Koot</i>	...	...	Rent in kind.
<i>Mahal</i>	...	...	Revenue area.
<i>Malikana</i>	...	...	Payment made by <i>Khaikar</i> to <i>Hissedar</i> .
<i>Muntakhib</i>	...	...	Record describing in detail separate shares, soils, etc.
<i>Nayabad</i>	...	...	Land reclaimed from forests for agricultural purposes.
<i>Naula</i>	...	...	Small wells.
<i>Padhan</i>	...	...	Head of the village community.
<i>Patwari</i>	...	...	A Government officer in the villages. He combines Revenue with Police powers.
<i>Phant</i>	...	...	Village record-of-rights.
<i>Pujari</i>	...	...	Worshipper in a temple.
<i>Sirtan</i>	...	...	Tenant-at-will.
<i>Talaon</i>	...	...	Irrigated land.
<i>Upraon</i>	...	...	Upland or land not possessing good facilities for irrigation.

---

## TRANSFER OF OCCUPANCY RIGHTS IN NORTH BIHAR

BY

B. B. MUKHERJEE,

*G. B. B. College, Muzaffarpur*

On the other side of the Ganges are the two neighbouring districts of Saran and Champaran forming part of the Tirhut Division of Bihar. These two districts differ materially in their physical as well as economic features. Saran is served by three important rivers, the soil is exceedingly fertile and the density of population is fairly high, in some thanas it is over 1,100 per square mile. In addition to the food crops like paddy, wheat maize, etc., several money crops like sugarcane, tobacco, cotton and potatoes are extensively grown. The cultivated area is 82.55 p.c. and during 20 years the cultivation has expanded by 4.5 p.c. This extension has been at the cost of pasture lands causing the inevitable deterioration of the breed of cattle. The competition for land and its higher fertility have pushed up rents very high. The incidence of rent for occupancy land is higher than in the neighbouring districts, and in this district in 59 villages the rate of rent exceeds Rs. 11 per acre, the highest being Rs. 21-11. The pressure of the population has brought about migration, both of a temporary and permanent nature, to other districts and to the neighbouring provinces, particularly Bengal. In the Census of 1911, 285,490 persons or about 11 p.c. of the total population were found to be outside the district. This does not however represent the correct value of temporary emigration which is at a maximum between the months of November and February and the Census Emigration took place after that.

The Champaran District is more sparsely populated as compared to Saran, the average density being 507 to the sq. mile. This accounts for the fact that 24 p.c. of the total area is under non-food crops as compared to 18 p.c. in the Saran District. Cultivation in this district is gradually expanding, large tracts of lands are being reclaimed from forest areas, hence the productivity of the land is not high. 70 p.c. of the total area is under cultivation and the size of the holding, owing to the lack of the pressure of population on the soil, is very large—5.19 acres or  $2\frac{1}{2}$  times bigger than in the neighbouring district of Muzaffarpur and is about 5 times that in Saran where it is 1.41 acres. The average size of a plot is .871 acre, much larger than the average plot in Saran, which is only .28 acre. The agricultural resources have not yet been sufficiently developed and there is little or almost no competition for land, hence the rate of rent is very low. The highest rate does not exceed Rs. 2-11-3 per acre for occupancy ryots, while the lowest is Rs. 1-10-2. There is little or almost no emigration, while a large number of immigrants have come from the neighbouring districts; these immigrants form about 6 per cent of the total population.

In spite of these wide divergences, the two districts have several points of similarity. In both, the occupancy ryot plays a very important part. In Saran 84.10 per cent of the occupied area is in the possession of occupancy ryots, while in Champaran it is about 83 per cent.

This result is mainly due to the security of tenure and fixity of title given by the Settlement operations. The importance of this will be realised from what Sir William Hunter wrote in 1876 in his Statistical Account of Champaran:—"Hardly any land in Champaran is held by tenants with a right of occupancy under Act X of 1859."

The preponderance of mortgages to sale in the transfer of occupancy rights in both the districts is also a striking feature. In Saran the total area of occupancy holdings alienated by sale or mortgage during 1911-1921 amounts to about 12 per cent of

the area held by ryots. In Champaran the area transferred by sale is one-third of the area alienated by mortgage, while it is one-sixth in Saran. The following table gives a comparative estimate of the relative proportion of transfer by sale or mortgage:

Name of District.	Area of Villages enquired into.	No. of Occupancy Holdings in the Village.	No. of Transfers.		Total.
			By Sale.	By Mortgage.	
Saran ...	939,699	603,065	1,920	95,313	95,233
Champaran ...	999,777	264,345	4,393	14,497	18,890

From this, it will appear that out of 16 per cent of the number of transfers of occupancy holdings in the village, about 97 per cent was by mortgage, the corresponding percentage for Champaran being 77 per cent. These mortgages are mostly of the usufructuary type, by which the mortgagee is placed in possession of the land and is entitled to the produce by way of interest. The mortgagor is in many cases allowed to cultivate it, on paying to the mortgagee one-half of the produce or any other stipulated amount. The main cause of this preponderance of mortgages is that under the Bengal Tenancy Act, no transfer of occupancy land by sale is voted till the consent of the landlord is obtained. The sanction of the landlord has to be obtained at times at heavy cost on payment of a large amount as *Salami*, or in many cases it is almost unobtainable. The Calcutta High Court in Indian Law Reports, Calcutta, 1897, p. 355, held that—"in the absence of any custom to the contrary, occupancy rights are not saleable without the consent of the landlord." This difficulty has induced the ryots to part with their lands by mortgage as the transferee by mortgage is not in the clutches of the landlord in the same way as the purchaser. The rent receipt is issued in the name of the ryot and the mortgagee cannot easily be dislodged from his position by the landlord. For this advantage the mortgagee has

to pay a higher rate per acre than the purchaser, as the following table will show:—

*Transfer of Occupancy Rights*

Name of Thana in District Saran.			Rate per acre for Sale.	Rate per acre for Mortgage.
			Rs.	Rs.
Siwan	...	...	157	164
Basantpur	...	...	186	200
Parsa	...	...	184	208

This feature of the landlord's right has given rise to a further evil. Not only is the transfer of occupancy rights increasing every year but land is passing out of the hands of ryots swelling the number of landless labourers which is 13 per cent in Champaran and is being concentrated in the hands of a few professional money-lenders and lawyers. This is fraught with the greatest dangers for the social organism and is likely to bring about a social revolution in the near future, unless checked in time.

In the neighbouring district of Muzaffarpur where the custom of transfer by sale has been successfully established in many parts and the consent of the landlord is not insisted upon, the proportion of mortgage to sale is not so disproportionately high and the tendency of land passing to the hands of moneylenders and other non-agriculturists is not so prominent.

This is further supported by the fact that in the Mirganj Thana of Saran where the restrictions on the transfer of land imposed by the landlord are very stringent, the total area transferred by sale was only 34 acres as compared to 2,507 acres transferred by mortgage. As a natural consequence of this, the percentage of transfer to non-agriculturists (landlords and money-lenders) is about 32 per cent and one can well imagine the seriousness of this tendency when one finds that in this Thana 85.59 per cent of the total occupied area is occupied by occupancy ryots.

## TRANSFER OF OCCUPANCY RIGHTS IN NORTH BIHAR 511

The following table gives an idea of the seriousness of this evil:

District.	Total number of Transfers.	Percentage of Transfers to Total Transfers to			
		Landlords.	Lawyers.	Moneylenders.	Ryots.
Saran ...	95,233	5.8	0.9	9.3	83.9
Champaran ...	18,890	8	0.3	24.1	55

The moneylenders here include those who do not carry on agriculture along with their main business of moneylending. This tendency has become very prominent during the last 25 years. During this period, transfers by sale to moneylenders increased from 9.35 per cent to 22.95 per cent while the mortgages rose from 9.35 to 29.96 per cent and the transfer by sale to ryots fell from 83.96 per cent to 71.55 per cent, and mortgages fell from 83.96 to 64.50 per cent in Champaran.

Another cause of the preponderance of non-agriculturist transferees is the practice of farming out land. The *thikadari* tenure was a necessity at one time when the district had to be opened up. By it a person takes up the *thika* of a village for a period of years, usually 12, and agrees to pay a certain stipulated sum to the landlord. During his period of tenure he has neither the time nor the inclination to effect agricultural improvements, and after the period is over and when the *thika* is revised, invariably the landlord demands a higher amount from the *thikadar*. This increase is ultimately borne by the ryots who have to pay it either in the shape of a higher rent or in the form of illegal taxes or *abwabs*. The result therefore is that after every twelve years a great disturbance to agriculture takes place, and this necessarily reduces the profits of cultivation, thus rendering it easy for the moneylender to get it.

Thus we find that the landlord's insistence on his consent for the transfer of occupancy holdings and the practice of farming have together caused the land to pass into the hands of non-agricultural classes. The best method of counteracting this growing evil is to take away the power of sanctioning the transfer of

occupancy rights from the landlord and to transfer it to an impartial agency, say the Revenue Officer, so as to ensure that transfers are made only in extreme urgency and that the land does not pass out of the hands of *bona fide* agriculturists. In short, North Bihar today is in need of a Land Alienation Act. The landlord enjoys the privilege of choosing his tenant and this privilege carries a very high money value in the form of *Salami* or bonus, and this tends to make it impossible for the ryot to purchase lands by sale, thus forcing all lands into the hands of *Mohajans*.

The Punjab was at one time faced with this problem and it solved it by enacting that in cases of the permanent alienation of land by all agriculturist to a non-agriculturist the sanction of a Revenue Officer was necessary, while there was no restriction for such transfers where both the parties were *bona fide* agriculturists. It is true that the administration of this Act is not easy, in view of the fact that moneylenders are also part-time agriculturists, but what the Punjab has done, North Bihar may also do. Here these restrictions must be made applicable to the usufructuary mortgages also which are, from the first, a virtual transfer and not a mere mortgage. This restriction may result in a lowering of the price of agricultural land and in the contraction of the borrowing capacity of the ryot, but it is to be expected that this will act as a substantial and effective check on his extravagance and improvidence. With the expansion of Co-operative Societies, the ryot will not suffer owing to this contraction of borrowing facilities and this passing of land into the hands of professional moneylenders may be checked.

---

# MARKETING OF JUTE IN CALCUTTA

BY

H. SINHA,

*Calcutta University*

## SUMMARY

In this Paper some aspects of the marketing of jute in Calcutta have been described, mainly from the information personally collected by the writer. The Paper has been divided into three sections.

In the first part, there is a description of the four principal classes of markets for raw jute:—

- (a) *Arats* or indigenous markets for loose jute, viz., Hatkhola, Phulbagan, Chitpore, Bagbazar, Shyambazar, Ultadanga and Cossipore, their methods, charges, and other details;
- (b) the market for *kutch*a bales, their method of packing, grading, sale, purchase, etc.;
- (c) the market for *pucca* bales, with similar details;
- (d) *Baras* or speculative markets, their method of work and recent reforms.

In the second part of the Paper, there is a description of the following principal Commercial Associations for raw jute:—

- (1) the Hatkhola Baniyya Hitaishini Sabha concerned with loose jute;
- (2) the Indian Jute Mills Association concerned with *kutch*a bales;
- (3) the Calcutta Baled Jute Association concerned with *pucca* bales;
- (4) the East India Jute Association dealing in jute futures;



- (5) the Calcutta Baled Jute Shippers' Association (of exporters of *pucca* bales);
- (6) the Calcutta Jute Dealers' Association (of European dealers and brokers of *kutch*a bales);
- (7) the Jute Balers' Association;
- (8) the Jute and Gunny Brokers, Ltd.;
- (9) the Bengal Jute Dealers' Association  
(of Indian balers, shippers, dealers and brokers of raw jute).

In the third part, some prominent features of the jute trade have been described, such as, changes in the volume and direction of export trade, domestic trade with mills, fluctuation in production and prices, etc. The change in prices due to the change in the purchasing power of money has been allowed for, and the causes of the extreme variations have been noted. The Paper is concluded with a plea for a better and a more efficient marketing organisation so as to secure to the ryot the legitimate fruits of his labour.

---

The literature on the marketing of jute is not extensive. The earliest and the most systematic description is to be found in the Report of the Jute Commission of 1873. There have been other accounts, which have given more up-to-date details, but these are meagre and not seldom inaccurate. An attempt has been made below to give a description, not based on second-hand materials of this nature, but on information gleaned and verified by personal interviews with leading jute merchants and also from replies to *questionnaires* issued for the purpose.

### CALCUTTA THE CHIEF MARKET FOR JUTE

The most important market for jute is Calcutta, not only because of the jute mills there, but also because of exports from the port. This fact is quite well-known. But in a thesis recently approved for the D.Sc. degree of the London University, an eminent authority, who has sought to make amends for "the ignor-

ance of rural economics on the part of the intelligentsia of Bengal," there are the following astounding statements:—

"The fibre to be exported to Europe is pressed in by hydraulic presses into pucca bales, weighing 5 maunds,<sup>1</sup> which are as hard as stones, and which are generally sent to Chittagong *via* Chandpur and thence to Europe. The kutchā bales originally intended for use in Calcutta are sometimes rebaled into pucca bales for export to Europe."

How these statements are borne out by facts will appear from the following statistics:—

Year.			Export of Jute in thousand tons from Bengal.	Export of Jute in thousand tons from Calcutta.
1921-22	...	...	487	457
1922-23	...	...	576	553
1923-24	...	...	656	635
1924-25	...	...	691	661
1925-26	...	...	641	616
1926-27	...	...	706	677
1927-28	...	...	890	851

### SYSTEMS OF TRANSPORT TO CALCUTTA

Of the total quantity despatched to Calcutta about 50 per cent is received through railways, 45 per cent through steam vessels, 4 per cent through country boats and 1 per cent through carts. Fifty years ago, however, about 45 per cent was received through country boats, 35 per cent through railways, 12 per cent through steam vessels and 8 per cent through carts. Country boats are being gradually ousted, while carts have practically disappeared, no separate statistics being available after the season 1922-

<sup>1</sup> The weight is in fact 400 lbs. net, exclusive of the tare allowance of 5 lbs. See *post*. There are three different maunds principally in use in Bengal: (a) Standard or Railway or Indian, weighing 82 lbs. 4 oz. 9 dr.; (b) Factory, weighing 74 lbs. 10 oz. 11 dr.; (c) Bazaar, 82 lbs. 2 oz. 2 dr. It will be noticed that none of them weigh 80 lbs.

23. The reason is not far to seek. Apart from the cost and delay involved in the picturesque but antiquated methods of transport, there has been a considerable change in the method of marketing jute in the mofussil. Trade has now become so vast that a number of agency houses have been set up in the mofussil, some provided with the most up-to-date appliances, where jute is bulked, graded and then sent to Calcutta. Units have become much too big for country boats or for carts.

## PART I

### DESCRIPTION OF CALCUTTA MARKETS

It is difficult to describe this vast trade in all its phases within the limits of a short paper. In its three parts, the subject has been studied in only three of its aspects, *viz.*:—

- (1) a description of the four principal classes of markets for raw jute in Calcutta, *viz.*, markets for loose jute, markets for *kutch*a bales, markets for *pucca* bales and speculative markets;
- (2) a description of the nine principal Commercial associations for raw jute;
- (3) a description of some prominent features of the trade.

It will be noticed that mofussil marketing has been entirely left out. This subject however is so obscure and so interesting that it is proposed to write another paper exclusively on this.

### INDIGENOUS MARKETS FOR LOOSE JUTE

Of the total quantity of jute imported into Calcutta, about one-fifth is received as loose jute<sup>2</sup> in the various indigenous

<sup>2</sup> In this is included what are called assorted *bojhas*, that is to say, bundles of graded jute not done up in bales.

markets. These are called *arats*, and there are seven of them at present:—

- (1) Hatkhola, dealing partly in Northern jute (grown in the tracts of high lands watered principally by the Brahmaputra and the Ganges in the districts of Rajshahi, Jalpaiguri, Bogra, Rangpur, etc.), partly in Eastern jute (grown in the eastern districts of Bengal such as Mymensingh, Dacca, Tipperah, etc.) and partly in Western jute from districts like Purneah. Jute from Sirajgunge and Pabna and also *daisce* jute grown on high lands in the neighbourhood of Calcutta are also to be found in this market.
- (2) Phulbagan, dealing mostly in Northern and Western jute and also jute from Eastern districts and Murshidabad.
- (3) Chitpore, dealing in jute from Jessore, Northern and Eastern Bengal.
- (4) Bagbazar, dealing in jute from the borderland between Nadia and Faridpur districts, in Eastern jute and to a smaller extent in Northern jute.
- (5) Shyambazar, including Patipukur, dealing principally in *daisce* jute (grown on high lands in the neighbourhood of Calcutta).
- (6) Ultadanga, dealing mostly in Madaripur jute (grown in the district of Faridpur and the contiguous portion of the Nadia and Jessore districts).<sup>3</sup>
- (7) Cossipore, dealing in all kinds of jute, with Northern and Western jute predominating.

<sup>3</sup> Madaripur jute had a bad name in the market. Recently however the quality has improved and fraudulent watering has practically disappeared. This jute is now mixed up with other jutes for sale to mills and for export. This market is thus of diminishing importance.

## DIFFERENCES IN METHOD

Not only are different kinds of jute to be found in this way in the different markets, there are also other points of difference. Thus in Phulbagan, payment is to be made by the buyer within eight days of delivery, but in Hatkhola and Bagbazar only five days are allowed and in Shyambazar, including Patipukur, only three days. The various customary deductions are also different. For instance in Bagbazar, the *dhaltā* or so-called drying allowance<sup>4</sup> is  $\frac{1}{4}$  seer<sup>5</sup> for each weighment, which must be given free to the buyer by the seller, whereas there is no *dhaltā* in some other markets like Hatkhola and Phulbagan.

## THE COSSIPORE MARKET

In spite of these differences, however, the method of buying and selling is much the same in all the markets, except Cossipore.<sup>6</sup> Strictly speaking, Cossipore is no *arat* at all, seeing that there is no godown. But there is *aratduri* business, that is, commission agency, for receiving the steamer and railway receipts from *beparis* or smaller mofussil merchants, for sale of jute on their behalf and on their account. No godown need be kept, for the railway company does not charge any demurrage for storage up to three days in its extensive godowns and the buyer is permitted to inspect the jute in the railway godown. The price is however fixed there only provisionally, for a considerable *batta* or discount has sometimes to be allowed to the buyer after the delivery of the jute to the press house named by him, whenever

<sup>4</sup> The *dhaltā* has to be allowed even if the jute is quite dry.

<sup>5</sup> One bazar seer current in Calcutta is equivalent to 80 tolas of 180 grains each, or 2.058 lbs.

<sup>6</sup> The peculiar features of this market are due to the inventive genius of Mr. Jewannal Bengani, the founder of the notorious *phatka* market for speculative dealing in jute. See *post*. He was a remarkable man. Beginning life in 1894 as a humble employee in a Bengali baling firm, he came to dominate the jute market in Calcutta within ten years.

there is a dispute that the whole of the consignment is not according to the sample shown. Not only this, a considerable *dhalta*, amounting to 1 seer<sup>7</sup> per bale of  $3\frac{1}{2}$  mds. and  $\frac{1}{2}$  seer per bale of  $1\frac{1}{2}$  mds. has now become customary, although it is not obligatory to make this allowance.

### OTHER MARKETS

In other markets, the method is altogether different. Each market has a number of *aratdars*, who have one or more *arats* or godowns each. Each *aratdar* is a trader on his own account and also a commission agent on behalf of mofussil merchants or *beparis*. In other words, the jute received by him may be his own, purchased by his own mofussil agencies on his own behalf, or it may be simply sent to him to be sold in Calcutta on behalf of others. The latter however frequently receive advances from the *aratdar*, bearing interest at the rate of 12 per cent per annum, with the added obligation (but not enforceable at law) of effecting sales through the advancing *aratdar*.<sup>8</sup> If any freight is payable on

<sup>7</sup> Unless otherwise mentioned, the seer and the maund are to be taken as the Bazaar seer and the Bazaar maund.

<sup>8</sup> In the romantic days of old, when consignments of jute were received mainly through boats, the *aratdars* sent out their men called *khalagastis*, ostensibly to take charge of the jute and pay the prescribed river dues, but really to seize the consignments in respect of which advances might have been made by the *aratdars*. In the words of the report of the Jute Commission (1873), "recusancy on the part of the consigners or of their supercargoes leads to quarrels and appeal to the police."

In some part of the mofussil, jute advances are made on bonds called *satta patras*, running somewhat as follows:—

"I.....do execute this *satta patra* in.....I do hereby take loan of Rs..... from you as advance for the supply of jute. I do stipulate to take back this *satta patra* after realisation of the full amount by means of delivering on.....at once and in one measure the total quantity of jute..... as shown above at.....per maund. If I deliver that jute gradually instead of at once and in one and the same measure, I will cause the same, whenever any quantity of it will be delivered by me, to be entered on the back of this *satta patra* and credited to my account. I do agree by this *satta patra* that if I fail to deliver that jute according to its terms, I will pay the full amount of advance together with the damages for any loss that you would incur, at the rate at which the other *mahajans* would sell their jute in that year. I do further agree by this *satta patra* that if I produce any other proof or receipt except the entry on the back of this instrument, it will be null and void." .....

the jute, that is met by the *aratdar*, and delivery obtained from the steam vessel or railway concerned. Out-of-pocket expenses like these, such as freight, cart and cooly hire to the godown are charged to the *bepari* or mofussil merchant, when the account sale is finally rendered to him. In the meantime an advance is made to him on account, up to an agreed percentage, the money being paid either to a local representative of the *bepari*, or sent by registered and insured post, or made over to an indigenous banker in satisfaction of the *hundi* discounted with that banker by the mofussil agency. Two types of *hundis* are used in this connection, the *darsani hundis* or demand bills and the *muddati hundis* or usance bills. Some of these are quite curious documents, not conforming to any of the usual forms. During the busy season, when there is a great demand for discounting such *hundis* in the mofussil, the *hundi* or commission charged varies from As. 6 to As. 8 per Rs. 100 on a *darsani hundi*. In the case of a *muddati hundi*, an additional amount is charged by way of discount for the period of the currency of the bill. These *hundis* are in every case *clean bills*; the relative documents of title in jute, *i.e.*, the steamer or the railway receipts, are invariably sent to the *aratdars* direct.

### COMMISSION AND OTHER CHARGES

There are two systems of commission and other charges, one followed by non-Bengali *aratdars* and the other by Bengali *aratdars*. The former have a flat rate of 6 annas per maund *kutchra* and 7 annas per maund *pucca*, the first signifying that there is no liability on the part of the *aratdar*, if there is a default in the payment of purchase money by the buyer, whereas the second signifies that the *aratdar* accepts full liability for payment.

Such a bond is not however made out when loans are received from a Calcutta *aratdar*, who can only exercise a moral pressure by persuading other *aratdars* not to sell jute in respect of which he may have made advances, through their Association called the *Hatkola Baniyya Hitaishini Sabha* (literally the association for the promotion of trade in Hatkhola). See *post*.

Bengali *aratdars* have however only the *pucca* arrangement, they do not have an all-in rate, and charge 4 as. per maund for themselves in addition to the following:—

*Tohoori kabari*, a varying allowance for payment to clerks and other employees of the *aratdar*;

*Dasturi*, a customary allowance, which also varies.

*Champadari*, an allowance for men who put the drums of jute on to the scales, usually at 12 as. per 100 maunds.

*Kayali* (for weighment), and } These two are usually charged at  
*Jachandari* (for assortment) } 4as. 6p. per 100 maunds.

Over and above these, the following charges are levied both by Bengali and non-Bengali *aratdars*:—

Godown rent—at As. 8 a day on 100 drums of about 1 mdl. each; at As. 12 a day on 100 small bales about 1½ mds. each; at Rs. 1-8 a day on 100 big bales about 3½ mds. each.

Insurance—at 1½ to 3 pies per maund for the entire period of storage.

*Dalali*<sup>9</sup> or Brokerage paid to the buyer's broker @ 3 pies per mdl.

*Ojan Sarkari*<sup>9</sup> or weighment fee also paid to the buyer's broker or representative @ 4 as. per 100 mds.

*Cashier* or *cashier's charges* paid to the buyer's firm @ Rs. 1-2-0 for every Rs. 1,000 of sale amount.

*Jalpani* or gratuity paid to the buyer's firm @ 4 as. for every 100 maunds.

*Tripal bhara* or tarpaulin hire for protecting jute from the rains @ 3 as. per piece.

<sup>9</sup> Sometimes, however, the two items *Dalali* and *Ojan Sarkari* are lumped together and shown as a single item.



## CHARGES FIFTY YEARS AGO

How the present charges compare with the charges fifty years ago will appear from the following table of charges current in 1873:—

*In Cash*

	As. P.
Agency commission per maund ... ..	1 0
Rent per maund for the entire period of storage ...	0 3 <sup>10</sup>
Weighment per 100 maunds ... ..	2 0
Coolies for removing from carts ... ..	6 0
„ „ placing on scales ... ..	3 0
„ „ removing from carts to godown ... ..	0 9
Tallyman ... ..	0 3
Brokerage to buyer's broker ... ..	0 3
Assortment fee on each cart load ... ..	0 9

*In Kind*

Assortment— $2\frac{1}{2}$  seers for every 100 mds.

Brokerage— $\frac{1}{2}$  seer per drum of about 1 md.

Religious observance— $3\frac{3}{4}$  seers for every 100 mds.

Weighman— $3\frac{3}{4}$  seers for every 100 mds.

In those days, the time for the payment of purchase money varied from 3 days to one month, and because the *aratdars* had this additional liability from which their successors are now free, they should charge less than before. It should be remembered however that the price of jute was then only about Rs. 3-8-0 a maund and the present charges cannot in view of this be considered excessive.

<sup>10</sup> Non-Bengali *aratdars*, who were then very few in number, charged Rs. 10 to Rs. 35 a month for each godown according to its size.

## METHOD OF SALE

The method of effecting sales has remained much the same through all these years. The buyer calls at the *arat* accompanied by his broker or *dalal*. The *bechwal* or the salesman of the *aratdar* shows them different samples. When a particular sample is approved, the *aratdar* and the *dalal* join their hands together under the cover of a piece of cloth, generally the *chaular* on the person of the *aratdar*. The *aratdar* writes with his finger the anna portion of the price per maund of the jute approved, on the palm of the *dalal*, who shakes his head in disapproval, so long as the price is not acceptable to him. This process goes on till the bargain is completed, when the *dalal* strikes the hand of the *aratdar* and the cloth is removed.<sup>11</sup> The buyer is in most cases a baler, who takes the jute to a press house for being carefully assorted and made into *pucca* bales for export. Occasionally, however, mills also buy loose jute in this way.

## PRESENT TENDENCIES AND THE FUTURE

What is the future of this *aratdari* business? Two tendencies are noticeable. One is the gradual replacement of Bengalis by non-Bengalis, the proportion of Bengali *aratdars* being now reduced to about 30 per cent. The second is that the volume of jute passing through the *arats* is not increasing *pari passu* with the total volume of jute produced. The *arats* for some other crops like seeds have practically disappeared, the produce being delivered directly to the Kidderpore dock or to the Howrah railway station.

<sup>11</sup> This curious system prevails also in other parts of India. See the Report of the Mango Marketing Committee published by the Government of Bombay. The practice might have owed its origin to the desire on the part of the *aratdar* to cheat his mofussil constituent. But it is extremely doubtful if it is possible to do so, in the face of the present keen competition. The writer was allowed access to the books of a Bengali *aratdar*, who has now retired from business. In every case the price obtained from the buyer was credited to the mofussil trader less the usual charges.

Will this be the fate of the picturesque jute *arats* also? So long as jute is grown in small holdings, so long as it cannot be properly bulked, graded and baled in the producing area itself, it must be sent to an *arat*. Whether it will be sent to a mofussil *arat*, or to a Calcutta *arat*, will depend on the financing, storage and other facilities offered at the two places.

### KUTCHA BALES

The second class of jute arriving in Calcutta is received directly into mills in the form of what are known as *kutchas* bales. There is no satisfactory definition of such bales. On the 12th of June, 1908, a notification under Section 40 of the Licensed Warehouses and Fire Brigade Act, 1893 (Bengal Act I of 1893), was issued by the Municipal Department declaring any building in Calcutta, which is used for storing jute in *kutchas* bales, to be a warehouse within the meaning of the Act. But a prosecution in the Police Court failed, owing to a point having been raised as to what was intended by the expression jute in *kutchas* bales. After some correspondence and discussion, the Bengal Chamber of Commerce ultimately adopted the following definition, namely:—

“A *kutchas* bale of jute is a bale which usually contains not more than 4 maunds of jute, and which may vary in density from 75 cubic feet to 130 cubic feet per 2,240 lbs.”<sup>12</sup>

Even this definition does not carry us far. The carrying companies recognise three different kinds of bales and have laid down the following sliding scale of rebates allowed on freights for jute bales, according to the lightness of packing:—

- (1) on bales of 4 maunds each, rebate of 22½ per cent.
- (2) on bales of 3½ maunds each, rebate of 20 per cent.
- (3) on bales of 1½ maunds each, rebate of 20 per cent.<sup>13</sup>

<sup>12</sup> See the Annual Report of the Calcutta Baled Jute Association from 1st August, 1908, to 31st July, 1909.

<sup>13</sup> The rebate allowed on *pucca* bales is 25 per cent.

The first type of bales are packed only by Messrs. Ralli Bros.—the biggest traders in jute. The second and the third are the usual forms of packing, their prescribed volumes being 13·5 cubic feet and 5·88 cubic feet respectively. *Kutch*a bales are therefore not so hard pressed as *pucca* bales which have a volume of about 10·4 cubic feet for every 400 lbs. There is another difference also. No portion of the jute is cut off for *kutch*a baling, the hard roots at the bottom and the sticky portion at the top being all retained. There are different marks of different balers, who sell on the guarantee of their marks. These are mostly European firms. Some standards of assortment have also been laid down for the grading of *kutch*a bales. Thus at a meeting of the Calcutta Jute Dealers' Association<sup>14</sup> held on January 27, 1927, the following standards for the season 1927-28<sup>15</sup> were laid down:—

Grade.	Hessian Warp. <sup>17</sup>	Good Sacking Warp. <sup>18</sup>	Cuttings. <sup>19</sup>
2's <sup>16</sup>	40%	40%	20%
3's	...	70%	30%
4's	...	40%	60%

R's or Rejections<sup>20</sup> to be straight morahed<sup>21</sup> but without any guarantee;

T. R's or Terrible Rejections to include everything below R's.

<sup>14</sup> For an account of this association, see *post*.

<sup>15</sup> The jute season begins on July 1, and ends on June 30, in the next year. Thus 1927-28 means July 1, 1927, to June 30, 1928.

<sup>16</sup> 1's containing 100 per cent hessian warp (see below) are practically unknown in the *kutch*a bales market, as the finest jute is always made up into *pucca* bales and exported. During the war when the export was restricted, 1's were occasionally found in *kutch*a bales market.

<sup>17</sup> *i.e.*, fibre suitable for use as warp threads for weaving hessians or the finest jute manufactures.

<sup>18</sup> *i.e.*, fibre suitable for use as warp thread for gunnies or coarse jute manufactures made into bags.

<sup>19</sup> *i.e.*, the portions which must be cut off from the top and the bottom in order to make the fibre uniform. In America these are known as Butts. A portion of the cuttings may be used as sacking warp or weft but the rest has to be utilised only for paper making.

<sup>20</sup> *i.e.*, mainly jute which is either damaged, barky or knotty.

<sup>21</sup> *i.e.*, folded or twisted at the head and at the bottom.

Unfortunately, these percentages are not strictly adhered to by all. There is further confusion on account of sub-groups, *e.g.*, under 2's we may have 2's green, 2's red, and 2's ordinary with slight variations; under 4's we may have good 4's, 4's ordinary and X 4's; under R's we may have R's, X R's, T.R.'s, B.T.R.'s (Bad Terrible Rejections), H.J.R.'s (*Habi Jabi* or Miscellaneous Rejections) and so on. Not only this, the same standard may not be observed year by year. The 2's of a year of high prices may be inferior to the 2's of a year of low prices. As a matter of fact, the Indian Jute Mills Association suggested to the Calcutta Jute Dealers' Association in their letter No. 562, dated September 16, 1926, that the existing marks were to go up one grade, namely:—

Present packing—4's, R's, T.R.'s, B.T.R.'s.

Next year's packing—3's, 4's, R's, T.R.'s.

The present standards are:—

2's ... 80 per cent for canvas, etc.

2's ... 20 per cent for hessian warp, weft and cuttings.

3's ... 80 per cent for hessian warp.

3's ... 20 per cent for hessian weft and cuttings.

4's ... 30 per cent for hessian weft.

4's ... 70 per cent for sacking, warp and cuttings.

To make the confusion worse, even during the same season, the same qualities may not be maintained throughout. During the early part of the season, jute retains its whiteness, gloss and strength. But as the season advances, the same jute becomes brownish, coarse and weak, specially if it was not packed in a perfectly dry condition. Various suggestions have been made from time to time to secure uniformity, *e.g.*, to indicate qualities by letters which will admit of a more exact classification<sup>22</sup> or by numbers assigning definite marks for (a) strength, (b) length, (c) colour,

<sup>22</sup> See *Supplement to the Indian Trade Journal* for April 30, 1920, p. 3.

(d) gloss, (e) freedom from dirt and sticks, etc.<sup>23</sup> These suggestions have however not been accepted by trade.

### METHODS OF MILL PURCHASES

The purchase of *kutchu* bales by the Indian jute mills is effected in one of the following several ways:—

1. The most usual method is to buy from baling firms in the mofussil, generally in forward contracts of a month or more, in quantities ranging from 500 to 25,000 *kutchu* bales, the price quoted being for a Bazar maund. There are about fifty such firms, twenty European and thirty Indian. Of the latter about ten have as careful baling as European firms. All of these sell through brokers and pay them a commission of 1 per cent to  $1\frac{1}{4}$  per cent. There are two classes of contracts:—

(a) direct and (b) principal or underwritten.<sup>24</sup>

In the first class of contracts, the broker has no liability whatsoever. He acts simply on behalf of the buyers his commission being generally 1 per cent. In the second class of contracts, he is liable for the due performance of the contract, and his commission is usually higher, *viz.*,  $1\frac{1}{4}$  per cent. It is clear that contracts of the first class are entered into only with first-class firms, who receive the full price, as soon as the steamer receipt is delivered to the purchasing mill. Any difference due to short weight, etc., is

<sup>23</sup> See N. C. Chaudhuri's *Jute in Bengal* (1921), pp. 169-170.

<sup>24</sup> A distinction is sometimes made between these two types of contract. Strictly speaking, a principal contract is a contract in which the broker acts on behalf of an undisclosed principal. If the principal remains unnamed, the broker has to accept liability, and the contract becomes an underwritten contract. Even if the principal's name is given out, the broker has very often to shoulder the liability. Hence whatever the theory may be, there is not much of difference between principal and underwritten contracts.

adjusted later by means of a debit note. In the case of the second class of contracts, about 90 per cent of the value is paid when the steamer receipt is handed to the mill.<sup>25</sup> The remainder is paid after the jute is landed, weighed and compared with the standard set out in the contract. If there is any dispute, it is referred to arbitrators appointed by the Bengal Chamber of Commerce according to the terms of the contract.

2. The less important baling firms do not sell directly to mills but in the name of brokers, who carry the deal through entirely on their own account and it is rumoured that some of them pay less to the balers than the amount received from the mills.
3. Some firms again pack their jute under the supervision of the representative of a broker, who allows his "mark" to be used in consideration of a fee of 4 annas per maund and then sell the bales to the mills.
4. A few brokers have now set up their own mofussil agencies and supply their own jute to the mills.
5. Sometimes the mills buy loose jute in small lots from persons known to them who buy it either in the *arats* described above, or local *daisae* jute in the mill area itself, or from the mofussil.

### PUCCA BALES

It has already been mentioned that a portion of the jute arriving in Calcutta is received directly into press-houses, mostly for export to foreign countries but partly also for sale to local mills. Some of these presses are maintained by the shippers themselves,

<sup>25</sup> It should be pointed out in this connection that no advance is made against the steamer receipt issued by the Eastern Bengal Railway and Steam Ship Co., Ltd., a purely Indian concern.

while the rest have their jute baled at presses hired for the purpose. These bales are very hard-pressed, weigh 400 lbs. net each (exclusive of the tare of 5 lbs.) and occupy a volume of 10 cubic feet (with a tare allowance of  $2/5$  cubic foot). Five of these bales form a jute ton of 50 c. ft.<sup>26</sup> (with a tare allowance of 2 c. ft. at the riverside and 4 c.ft. alongside the vessel) for the purpose of export. The assortment has to be done very carefully. The rooty portion at the bottom and the sticky portion at the top have to be cut off in order to make the fibre as uniform as possible. There is the same difficulty with regard to the standards of the different grades in the case of the *pucca* bales as in the case of *kutch* bales. The highest grade—"Diamonds," packed out of the picked fibres of the best jute grown in Mymensingh and Dacca districts, is now practically obsolete. As a matter of fact, the grades classified by the London Jute Association do not show "Diamonds" but begin with "Reds" as shown below:—

"Reds": baled principally from selected fibres of "Northern" jute and also from "Eastern" jute to some extent. This mark is suitable for being woven into high grade hessians.

"Firsts": This is the standard quality and was formerly known as "M Group" or "Cracks." It is chiefly composed of "Northern" jute, although there may be "Eastern" (chiefly District quality) and "Western" jute as well. This is suitable for ordinary hessian manufacture.

"Lightnings": made up of the medium common Northern qualities and also of the residue of higher qualities. The group should yield at least 60 per cent sacking warp.

<sup>26</sup> For shipment to Boston, New York and Philadelphia, however, 40 c.ft. form a jute ton. The freight is in every case quoted in shillings and pence per ton, converted into rupees at an exchange rate prescribed by the Bengal Chamber of Commerce.



“Hearts”: mainly baled out of low grade weak jute with which gunny bags are usually manufactured. This mark yields about 40 per cent sacking warp.

“Daisee”: altogether different from ordinary jute (*Corchorus capsularies*), belonging as it does to the species *Corchorus olitorus*. Its chief merit is the absence of roots. It is grown principally in the neighbourhood of Calcutta, in Jessore, Khulna, etc.

“Tossa”: a quality of jute grown from the *tossa* seed. It grows almost in all districts and is characterised by its strength and freedom from roots. It may have a yellow colour but may also be brownish and even dark brown.

Under each one of these standards every shipper has a number of marks to denote particular qualities and grades of jute. To give only one instance, Messrs. Soorajmull Nagarmull, one of the most important shipping firms, had as many as 73 registered marks during the season 1926-27. These marks have to be duly registered with the Calcutta Baled Jute Association, which publish an Official Book of Marks every year before the beginning of the season. These marks have also to be lodged with the London Jute Association. For the “Hearts” grade, generally a “heart” is depicted; for other grades some geometrical figure, *e.g.*, a circle, a rectangle or an ellipse is used. According to the contract form approved by the Calcutta Baled Jute Association no letters or numbers denoting quality should be less than five inches in length. The contract also lays down that for all marks above “Hearts” the jute must be free from “Bombays”<sup>27</sup> and Rejections<sup>28</sup> and the roots must not exceed  $2\frac{1}{2}$  per cent on an average.<sup>29</sup>

<sup>27</sup> “Bombays” are the inferior residue of all jute and are never cut, the rooty portion at the bottom and the sticky portion at the top being both retained.

<sup>28</sup> “Rejections” are exported separately. During the season 1925-26 out of the total export of 3,516,792 bales, 3,095,075 were of jute, 191,722 were of “Rejections” and 229,995 of Cuttings.

<sup>29</sup> There are many other clauses besides these in the contract form; the total number being 17, excluding the 3 rules and the 6 bye-laws amplifying the last clause. See *post*.

## BALER'S AND SHIPPER'S PRICES

The baler's price for jute is quoted f.a.s. and in order to arrive at the shipper's c.i.f. price, the following charges have to be added:—

1. Export Duty of Rs. 4-8-0 per bale for all marks above Rejections, which are charged, at Rs. 1-4-0.<sup>30</sup>
2. Local cess of 2 annas<sup>31</sup> per bale charged on behalf of the Calcutta Improvement Trust.
3. Port Commissioners' Tolls, etc., at present amounting to about Rs. 4-10-0 per bale.
4. Consul's fees for destinations outside the empire, as all invoices have to be certified by the Consul for the importing country.
5. Insurance generally effected for 10 per cent above the invoice cost.
6. Policy stamp.
7. Freight varying from time to time.
8. Interest for the period between the payment to the baler<sup>31</sup> and the date of negotiating the draft with an Exchange Bank.
9. Telegrams, postage and other incidental charges.
10. Commission payable in London if the order is received through a London house and not directly by the shipper.
11. Shipper's own commission.

<sup>30</sup> Under Government of India Notification No. 1428, dated November 17, 1923, jute rags such as are used for paper-making are exempt from the payment of export duty, provided that the Customs Collector is satisfied that they are useless for any purpose to which cloth or rope is ordinarily put.

<sup>31</sup> According to clause 15 of the contract form approved by the Calcutta Baled Jute Association the terms of payment are cash on the delivery of mate's or dock receipts.

This is the most usual scale of charges. Occasionally however the overseas purchaser desires a f.o.b. quotation, he himself arranging for freight and insurance. In a few cases jute is shipped to a foreign port on consignment account for commission sale. Usually however regular bills are drawn either on importing firms or on banks specified by them in the letters of credit opened at their instance, accompanied by the usual shipping documents. These bills are mostly D/A's and freely discountable, the rate of exchange being fixed up beforehand by means of forward exchange contracts.

### SPECULATIVE MARKETS

Besides the above three classes of markets, (1) for loose jute in *arats*, (2) for *kutchra* bales for mills and (3) for *pucca* bales for export, there is a fourth class of markets, which may be described as speculative markets. There are various Exchanges in the northern part of Calcutta run ostensibly for "futures" on approved principles (*e.g.*, those followed by the Clearing House of the Liverpool Cotton Association or by the markets for "cotton futures" in New York and New Orleans) but in practice often degenerating into gambling dens. These are called *baras*. There are separate *baras* for jute, hessians, shares, linseed and cotton. No written contracts are made out in connection with the transactions in any one of these *baras*, though every deal is reported to be entered in the books of the buyer as well as of the seller and signed by the opposite party in acknowledgment. Each Saturday there is what is called *bhuktan*, that is to say, a rate is fixed on the basis of which differences are paid and received on the following Monday. The 'contract' however continues till the due date stipulated, when a settlement has to be finally made. Here the difference between a *bara* and an organised "futures" market becomes at once apparent. For in most *baras* the buyer is precluded from exercising his right of obtaining delivery of the commodity he has bought, and the seller his right of offering delivery

of the goods he has sold. They must both rest content with paying or receiving differences. Apart from this, there are no regular hours of business, no duly constituted rules, no written contracts, no minimum quantity for each deal and so on. It is no wonder therefore that some of these *baras* are frequently raided by the police.<sup>32</sup> Strongly worded protests have been made by the jute trade from time to time against this evil, e.g., by the London Jute Association and the Indian Jute Mills Association. But in spite of vigorous action on the part of the police, the evil has not been removed, partly because the law is not entirely satisfactory, partly because gambling is often accompanied by *bona fide* hedging operations, and partly because these operations are carried on at different times through different bodies such as *Bhitar Bazar* (literally, inside or secret market),<sup>33</sup> *Phatka Market* (literally, a market swelling and bursting like a bubble) and so on. Apart from police prosecutions, attempts have been made from time to time to control future dealings somewhat according to the methods adopted by the East India Cotton Association established in 1921 in Bombay, and vested with statutory powers. In 1926, a bill called the "Wagering Associations Bill" was introduced in the Bengal Legislative Council by Mr. D. P. Khaitan, M.L.C., but did not meet with adequate support from the jute trade. A similar bill introduced last year by Mr. P. D. Himatsingha met with no better fate. While every one is agreed that gambling with its injurious effect on genuine trade should be ruthlessly suppressed, there is a considerable body of men who are anxious to have a regularly organised market for jute futures. In June last year a new association called the East India Jute Association, Ltd., was opened in Calcutta by Mr. J. M. Sen Gupta, then Mayor of Calcutta. In spite of elaborate rules pub-

<sup>32</sup> One raided on May 21, last had the high-sounding name of Jute Merchants' and Brokers' Association. It was an unregistered body and had its rooms at 5/1, Royal Exchange Place.

<sup>33</sup> This was originally a market for genuine future dealing but eventually degenerated into a gambling den and had to be suppressed.

lished in the newspapers, the Association has not been much of a success. Even now genuine traders look at the new institution askance. To give only one instance, in the daily Jute Market Report published by Messrs. J. M. Bannerjee & Co. for the last 38 years, the quotation of the Association are shown as the quotations of the *Phatka Market*.

## PART II

### DESCRIPTION OF COMMERCIAL ASSOCIATIONS FOR RAW JUTE IN CALCUTTA

The following are the principal commercial associations for the raw jute trade<sup>34</sup>:—

- (1) the Hatkhola Baniya Hitaishini Sabha,
- (2) the Indian Jute Mills Association,
- (3) the Calcutta Baled Jute Association,
- (4) the East India Jute Association,
- (5) the Calcutta Baled Jute Shippers' Association,
- (6) the Calcutta Jute Dealers' Association,
- (7) the Jute Balers' Association,
- (8) the Jute and Gunny Brokers, Ltd.,
- (9) the Bengal Jute Dealers' Association.

The first four are concerned respectively with the four markets for raw jute in Calcutta described above. The fifth, as its name implies, is an association of shippers of *pucca* bales. The sixth represents the traders in the *kutch*a bale market, both dealers and brokers, but all Europeans. The seventh, the eighth and the last are associations of Indian balers, shippers, dealers and brokers with identical objects.

<sup>34</sup> The author is indebted to the Bengal Chamber of Commerce, the Bengal National Chamber of Commerce, the Indian Chamber of Commerce and also the authorities of all these associations for the information given here.

### 1. The Hatkhola Baniya Hitaishini Sabha

This is an association of Bengali jute merchants of Hatkhola and other indigenous *arists*, already referred to, having its office at 40 Boloram Majumdar Street, Calcutta. It is not affiliated with any of the Chambers of Commerce in Calcutta, nor does it return any member to the Bengal Council.

### 2. The Indian Jute Mills Association

The Indian Jute Manufacturers' Association was constituted in 1884, the name being changed into the Indian Jute Mills Association at a special general meeting, held in July, 1902, when the present rules were laid down. The objects of the Association were described in the following words:—

“To encourage and secure united feeling and action, to collect and classify facts and statistics, to open out new markets, it practicable to fix points of custom, to obtain one form of contract, to obtain the removal of grievances, to arbitrate on matters of dispute, to communicate with public authorities or kindred Associations; generally to promote and protect the interests of those engaged in the industry in all matters relating to it, especially in matters touching the interests of the members of the Association; and to do all such other lawful things as are incidental or conducive to the attainments of the above objects or any of them.”

Membership is open to all persons owning or managing Indian jute mills or holding power-of-attorney to represent them. The annual subscription payable in advance is calculated on the number of looms or spindles owned or managed or represented by each member. The affairs and funds of the Association are managed by a committee consisting of a chairman and four members, who are elected at the general meeting every year. The Secretary and Assistant Secretary of the Bengal Chamber of Commerce are

the *ex-officio* Secretary and Assistant Secretary of the Association. The Association returns two representatives to the Bengal Legislative Council.

### 3. The Calcutta Baled Jute Association

At a meeting held in May, 1892, of shippers, brokers and balers of raw jute in Calcutta, Mr. Allen Arthur (of Messrs. Finlay & Co.) stated that the Calcutta Jute Balers' Association formed two or three years ago had been allowed to lapse, because its main object of checking speculation could not be achieved. There was room however for an association, which would have as its object the stabilisation of trade on a better and firmer basis. Accordingly, the Calcutta Baled Jute Association was formed, at a General Meeting held on 30th May, 1892. Three contract forms were provided for:—

Baled Jute No. 1

„ „ No. 2 (Rejections)

„ „ No. 3 (Cuttings)

which continued even to the present day, although somewhat modified. A suggestion for a fourth contract to provide for jute sold as “home guarantee” fell through. The annual subscription was fixed at Rs. 50 payable in advance in September. The admission fee was fixed at Rs. 32 (Rs. 16 for members enlisting before 31st August, 1892). These rules have been subsequently amended. The annual subscription has now been reduced to Rs. 32 but the admission fee has been raised to Rs. 1,000. Membership is open to all persons interested in baled jute trade in any way. The general management of the business and affairs of the Association is entrusted to a committee consisting of nine members, to include an equal number, each of the representatives of shippers, balers and brokers. The Secretary and the Assistant Secretary of the Bengal Chamber of Commerce are the *ex-officio* Secretary and Assistant Secretary. The prescribed contract forms

of the three classes referred to above are very complex,<sup>35</sup> and the book of marks registered by members is very elaborate.

#### **4. East India Jute Association, Ltd.**

As already stated, this Association has been started with a view to the proper control of the business in jute futures. There are two classes of contracts, special contracts and standard contracts, the former being non-transferable and the latter passing from hand to hand, the rights and liabilities of the different intermediate parties as also the initial and final parties being adjusted through the clearing-house maintained by the Association. For the present there is only one standard contract, viz., the London Jute Association actual First Group Marks Contract, but substitute marks are permitted on payment of a penalty. There are three tender days in a week, Monday, Wednesday, and Friday. Every Saturday, there is a periodical payment of difference between the contract price and the market rate as determined by the Daily Rates Committee, "to ensure the safe performance of all contracts and to protect contracting parties from any loss resulting from the non-fulfilment of contracts." The rates on the delivery dates of the delivery months (i.e., September 20, December 20, and March 20) are however given by the Board of Directors of the Association. All disputes are finally arbitrated by the Committee of the Indian Chamber of Commerce with which the Association is affiliated. There are at present 11 members in the merchants' panel and 232 in the brokers' panel.

#### **5. Calcutta Baled Jute Shippers' Association**

In the words of the Memorandum, the primary object of this Association is—

To promote, support and protect the character, status and interest of the shippers of jute, to make rules and regulations for the conduct of such shippers, to define the

<sup>35</sup> See *ante*,



customs and usages of such trade, to make and enforce a form or forms of contract under which members of the Association shall purchase jute, to promote just and honourable practices therein and to secure united action among such shippers.

This Association is affiliated with the Bengal Chamber of Commerce; the Secretary and the Assistant Secretary of the Bengal Chamber are ex-officio Secretary and Assistant Secretary of the Association. Although the liability of the members is limited, the word "Ltd." is not appended to the name of the Association by virtue of the special provision contained in Section 26 of the Indian Companies Act. Originally the name of the Association was the Baled Jute Shippers' Association. This was changed into the present name when it was incorporated under a special license from the Government of Bengal dated February 22, 1926. The members then taken over are called Original Members, each having four votes and the new entrants called Ordinary Members have only one vote each. Not only this, any new member must be approved by a majority of over 5 to 1, and also by the Committee of the Association, consisting of the President and 4 members, elected at each Ordinary General Meeting. The quarterly subscriptions are payable in advance on March 31, June 30, September 30 and December 31, the amount being fixed by the Committee subject to a maximum of Rs. 100. The present membership is 24.

#### **6. Calcutta Jute Dealers' Association**

All European persons directly connected, either as sellers or brokers, with the trade in jute for local consumption are eligible for election as members. They have to be proposed by two members, and seconded by the Committee, of the Indian Jute Mills Association. The general management of the business of the Association and the administration of its affairs and funds are entrusted to a committee of six members. The admission fee and annual subscription are respectively Rs. 50 and Rs. 30 for

the present but are liable to alteration. The present membership is about 100. The Secretary and the Assistant Secretary of the Bengal Chamber of Commerce are the *ex-officio* Secretary and Assistant Secretary of the Association.

### **7. The Jute Balers' Association**

This is an association of Indian jute balers, shippers, traders and brokers founded in 1909 with the following objects:—

To promote, protect and watch over the general commercial interests, to collect and circulate statistics and other informations relating to the trade, to adjust controversies between members, to arbitrate in the settlement of disputes arising out of commercial transactions and to maintain uniformity in rules, regulations and usage of trade.

This was incorporated under the special provision of Section 26 of the Indian Companies Act on June 8, 1918. The business is vested in a committee of four members and the Chairman elected at the Annual General Meeting.

### **8. The Jute and Gunny Brokers, Ltd.**

This is an association with similar objects, the managing agents being Messrs. Birla Bros., Ltd. The members are also members of the Calcutta Baled Jute Association and the East India Jute Association, and have no bye-laws of their own. They use the contract forms approved by the above two Associations as also of the Indian Jute Mills Association, and abide by their respective bye-laws.

### **9. The Bengal Jute Dealers' Association**

This Association was started during 1928 and has been affiliated with the Indian Chamber of Commerce. The object is "to promote and guard common interests of its members as dealers in jute." The membership is open to "all persons directly connected either as sellers, buyers or brokers with the trade in jute." The annual subscription is Rs. 25 only.

## PART III

## SOME FEATURES OF JUTE TRADE

## VOLUME OF EXPORT TRADE

The most prominent feature of the jute trade is its remarkable development in recent years—specially the export trade. A distinction has to be made between the export trade in jute manufactures and that in raw jute. The former is much older, jute having been spun and woven as a cottage industry long before the days of the mills. In fact it was a well-established industry as early as the days of the *Ain-i-Akbari*.<sup>36</sup> The latter is much more recent, although not so recent as is usually imagined. The earliest reference to the export trade in raw jute is to be found in the letter from the Court of Directors of the East India Company, dated October 23, 1793,<sup>37</sup> in which they ordered a shipment of 1,000 tons, having been satisfied with the results obtained from the previous trial shipment. But trade did not make any considerable progress during this early period. Board Office records are available from 1828-29, but are not so reliable as the Calcutta Customs House records which are available since the year 1835-36, some figures being quoted below:—

Fiscal Year	Export of Jute in thousand cwts.	Remarks
1835-36	12	...
1836-37	165	This apparently rapid increase is partly due to better control for statistical purposes.
1845-46	213	...
1855-56	881	...
1858-59	318	This fall is on account of the Mutiny.
1865-66	3,472	Includes 212 thousand cwts. Cuttings.
1872-73	7,255	Includes 1,272 thousand cwts. Cuttings and 274 thousand cwts. Cuttings and Rejections.

\* 36 See J. C. Sinha's *Economic Annals of Bengal* (Macmillan & Co.), 1927, p. 37.

37 *Ibid*, pp. 258-59.

About this time the Indian jute mills began to consume the raw produce in quantities; and there was a temporary set-back in the export figures. The mills had, however, increased their looms at too rapid a rate. The result was that there was a crisis in the Indian industry and jute had again to be offered to external consumers as before. This expansion was checked for the second time when there was a serious fall in the exchange value of the rupee, but there was a quick recovery with the stabilisation of the exchange rate. There was a third decline during the War but the lost ground has now been more than made up as shown in the statistical table for jute exports in thousand tons quoted at the beginning of Part I.

#### DIRECTION OF EXPORT TRADE

The destinations of jute exported in early years are given below :—

#### *Export of Jute in thousand cwts. through the Calcutta Customs House to :*

Fiscal Year	United Kingdom	America	France	British Indian Ports other than Calcutta	Remarks
1836-37	147	8	3	7	...
1845-46	199	2	10	4	..
1855-56	766	54	55½	...	...
1858-59	121	83	109	...	This shows how Continental buyers gained at the expense of U. K. during the Mutiny.
1865-66	2,226	1,107	4	180	Includes Rejections also. The fall in exports to France is due to war on the Continent.
1872-73	5,426	1,467	148	194	Includes Rejections as well as Cuttings.

It will be noticed that Germany which is now the biggest buyer of raw jute has no place in the table. The earliest German shipment was to Bremen in 1840-41 when an export of 13 cwts. only is recorded. There was a shipment to Hamburg for the first time during 1845-46, recording an export of 226 cwts. only. The present direction and volume of export trade in raw jute will be clear from the following table:—

*Export of Raw Jute from British India in thousand bales of 400 lbs. each.*

Countries.	Pre-war Average (for the quin- quennium 1909-14).	War Aver- age (for the quin- quennium 1914-19).	Post-war Average (for the quin- quennium 1919-24).	1925-26	1926-27
United Kingdom	1,691	1,295	952	977	968
Germany ...	920	34	586	810	1,025
U. S. A. ...	535	523	483	388	489
France ...	428	198	357	496	504
Italy ...	213	215	180	275	253
Belgium ...	...	1	174	185	248
Spain ...	122	172	132	167	187
Other Countries	372	161	364	326	290
Total ...	4,281	2,599	3,228	3,624	3,964

The most remarkable post-war development is not the quick recovery by Germany, about which so much has been said in trade reviews, but the entry of Belgium as a buyer of rapidly increasing importance.

## DOMESTIC TRADE WITH MILLS

The War however did not bring about any diminution in the volume of domestic trade with the Indian jute mills, which have showed an almost uninterrupted progress ever since they were first started. The consumption of jute in Indian mills is shown

below in lakhs of bales of 400 lbs. each for each jute season (July-June) from 1912-13 to 1926-27 :—

Season :	1912-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Mill consumption :	46	45	49	58	57	54	51	52
Season :	1920-21	21-22	22-23	23-24	24-25	25-26	26-27	
Mill consumption :	56	44	47	51	57	55	55	

The purchases by the mills are not however so steady as the above consumption figures would seem to show. For they often carry over considerable stocks from one season to another. This will be apparent from the following table compiled from the latest Annual Report of the Indian Jute Mills Association showing quantities of raw jute purchased by the Mills in millions of maunds for the above period :—

Season :	1912-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Mill purchases :	24	22	30	27	27	31	25	30
Season :	1920-21	21-22	22-23	23-24	24-25	25-26	26-27	
Mill purchase, :	25	22	15	26	24	27	37	

### FLUCTUATION IN THE VOLUME OF PRODUCTION

This variation in annual purchases by Mills is called for by considerable fluctuations in the volume of production of raw jute as shown in the table below, compiled from the final forecasts published by the Director of Agriculture, Bengal, and subsequently revised.

(In lakhs of bales of 400 lbs. each)

Season.	1912-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Production :	92	89	104	73	83	89	70	88
Season :	1920-21	21-22	22-23	23-24	24-25	25-26	26-27	
Production :	59	40	54	84	81	89	102. <sup>38</sup>	

### FLUCTUATION IN PRICES

With the volume of production thus unregulated, it is no wonder that the price of jute fluctuates wildly from year to year.

<sup>38</sup> The original figure was 108. This wide divergence between estimated original and revised figures is not the only point of complaint against official forecasts. On many occasions there have been still greater variations between forecast figures and trade figures giving rise to strongly worded protests from the trade.

The extent of the variation may be seen from the following table. As there has been a change in the purchasing power of rupees, during this long and troubled period the prices have been corrected in the last column by multiplying the actual prices in each year by 100 and dividing the product by the index number for that year:—

		Price of Jute in Calcutta per bale of 400 lbs. C. D. M. group from 1906 and Reds from 1922 in decimals of Re. 1	Index Number of Wholesale Prices in India (Base 1873 =100) published by the Department of Statistics	Corrected Price of Jute in Calcutta as explained above
1873	...	23.84	100	23.84
1906	...	63.01	129	48.84
1907	...	64.86	137	47.34
1908	...	46.10	138	33.40
1909	...	36.11	124	29.12
1910	...	41.11	122	33.70
1911	...	57.81	129	44.81
1912	..	61.44	137	44.85
1913	...	77.95	143	54.51
1914	..	77.75	147	52.90
1915	...	54.35	152	35.76
1916	...	67.26	184	36.52
1917	...	55.75	196	28.44
1918	...	71.40	225	31.73
1919	...	102.20	276	37.03
1920	...	97.51	281	34.70
1921	...	93.56	236	39.64
1922	...	87.84	232	37.86
1923	...	68.36	215	31.80
1924	...	75.84	221	34.32
1925	...	111.81	227	49.16

Thus if we make proper allowance for the variation in the purchasing power of money, the lowest average annual price during the 20 years 1906 to 1925 was 28.44 in 1917. Apart from this fluctuation in average annual prices, there is often considerable variation in the course of a season. Thus the fiscal year 1926-27 opened with a quotation of Rs. 101 per bale, which gradually declined to Rs. 82 on June 1. The publication of the preliminary forecast showing an increased acreage under jute during

the ensuing season depressed prices still further to Rs. 59 on August 10. The fall was arrested at this stage, because the arrivals of jute into Calcutta were below anticipations. The price rose to Rs. 66 on September 7 but with the issue of the final forecast showing a record crop, the price again went down to Rs. 57 on November 2. Throughout December, the price stood at about Rs. 60, appreciating to Rs. 66 on January 18th, on account of an improved foreign demand, there being a subsequent reaction, which continued to the end of the year, the closing quotation being Rs. 62½ per bale.

### CAUSES OF FLUCTUATIONS

What are the causes of such extreme fluctuations? As stated above, production of jute is entirely unregulated. Nor is it possible to release supplies from the mofussil in accordance with demand, to prevent even the day-to-day fluctuations. In the first place, Bengal is a land of small holdings—smaller even than the tiny parcels in other provinces, partly as a consequence of the proprietary rights in land created by the Permanent Settlement. The cultivator is unable to make proper arrangements for warehousing his produce with his limited resources. In the second place, jute is combustible and he cannot afford to keep it in the vicinity of the thatched hut in which he lives. Thirdly, the fibre deteriorates considerably in colour and strength, specially if it is not absolutely dry before it is stored. Fourthly, when the numerous creeks in which the Bengal jute lands abound dry up, the only method of transport is by the primitive cart, which makes the cost almost prohibitive in the case of a cheap and bulky commodity like jute.

### MULTIPLICITY OF MIDDLEMEN

The result is that the poor ryot is at the mercy of middlemen, who have appeared on the field, on account of the frequent fluctuations in prices. There are middlemen in every trade, but they are far too numerous in the jute trade, and have all to be remunerat-



ed, although some of them do not perform any commensurate economic service. It is true that their method of work should rightly be considered in connection with mofussil marketing but it is necessary to point out here that many of the corrupt practices about which one hears in the Calcutta market are due to these middlemen and not the producers. For instance, the ryot cannot water the jute; his small bundle is carefully inspected by the *faria*, i.e., the itinerant small dealer, who purchases either at his house or at the neighbouring village market. The watering of jute and the strowing of sand to hide the moisture and to increase the weight are both due to middlemen.<sup>39</sup>

### WEAKNESS OF THE PRESENT ORGANISATION

The control of these middlemen is no less difficult than the proper organisation of the ryots. In fact the whole organisation of the jute trade is weak and inefficient from beginning to end. The ryot does not know how much he should produce to meet the demand at home and abroad.<sup>40</sup> The Director of Agriculture gives his forecast figure when the season is pretty well advanced and even then his figure is inaccurate in the extreme. The local mills have a strong association which carefully regulates their purchases, sometimes in excess of the quantity required, and sometimes below it, so as to keep prices as low as possible. The sellers of jute to the mills on the contrary are hopelessly disorganised. Whenever there is a dispute with the mills, the decision always goes against the sellers.<sup>41</sup> Not only this, the canker of speculation has infected the whole trade, which tends to be a mere gamble more and more. The worst consequence is that the poor ryot is deprived in a large measure of the fruits of his toil. He has to work waist deep in noisome jute-steeped water for hours together

<sup>39</sup> This has been the personal experience of the writer.

<sup>40</sup> Cf. "Intention(?) to Plant Report of U. S. A."

<sup>41</sup> Recently, they pressed for the introduction of the guarantee system in place of standard mark which is open to so much abuse and controversy. But this reasonable proposal was turned down by the Indian Jute Mills Association.

in the most unhealthy season with the tropical sun overhead. But he adds merely to the coffers of middlemen and ultimate buyers. Even the State has its share in this wrong. The jute tax is credited to Imperial revenues. No part of it is available for the sanitation, education or welfare of the Bengal ryot. The jute cess is paid to the Calcutta Improvement Trust for beautifying the Second City in the Empire, which not even one ryot in a thousand has seen or ever hopes to see. And what is still worse, this grievous wrong is proclaimed as a great benefit to the ryot on the specious plea of "high prices" secured by him. The real nature of these "high prices" is apparent from the table of prices corrected with reference to the index number. For example, in 1925, the ryot really obtained less value for his jute than he did in 1913. But there can be no remedy until the Bengal ryot comes into his own and is able to assert himself.

---

# SOME OBSERVATIONS ON MARKETING IN NORTHERN GUJARAT AND KATHIAWAD AND AT BOMBAY

BY

K. H. KAMDAR,  
*Baroda College, Baroda*

## SUMMARY

Remarks of the Agricultural Commission on the absence of reliable or any market survey in India.

Suggestions of the Commission on the same.

The observations of the Commission apply to the marketing of all commodities. The Universities and the commercial and such other associations in our country have not directed their energies to this branch of our economic life.

Some primitive forms of marketing in Gujarat and Kathiawad. Their functioning in present-day economics. The Fairs.

Relation of marketing to means of communications. Recent developments in Kathiawad will eventually establish a northern market for commodities produced there and in North Gujarat. The Bombay trade will be radically altered. The linking of the markets of Northern Gujarat and Kathiawad with distant Bombay was a very unnatural development and it was forced upon the provinces by circumstances over which her princes and people had no control. The resumption of the northern market will re-establish their ancient economic connection with Sindh and North India. The irrigational developments in Sindh and the disappearance of the subsistence crops in Kathiawad point to the same conclusion.

The increasing cultivation of groundnut, etc., in Kathiawad.

Some suggestions to expedite this revolution in marketing. Existing facilities for this in the provinces.

The Patel Houses. The intervention of the states.

Neutral and certified weighing.

Uniformity of weights and measures.

Scientific Auctioneering.

Co-ordination of markets.

Marketing of Ahmedabad and Bombay textiles. Suggestions to improve this.

A laborious and astute bargaining is the characteristic feature of rural and primitive business. Modern business requires marketing ability of a highly constructive order.

Advertising is a study in psychology.

Appeal to the purchasing public through vernaculars.

Timely visits to the purchasers and the retail merchants.

The branding, quality, description, etc., of our commodities must be uniformly maintained. Our goods must become household words even among the illiterate public. At present it is not so.

A good advertiser builds up a demand which the salesman afterwards crystallizes.

Diagrammatical presentations of price-structures. Concentration of markets at Bombay.

At present the markets for the same commodity are distributed in various centres at Bombay. These different centres should be abolished and we should have but one market for one commodity in the whole city.

This concentration is practised at Hamburg for all markets and at London for some markets.

Advantages of this policy:--A greater dispatch in business, closer contact between businessmen, and co-ordination and uniformity in business policy.

---

“ No systematic survey of the conditions under which agricultural produce is marketed in India has yet been made in any

province. While it was clear from the outset of our enquiry that it would not be possible for us, from the angle of an all-India enquiry over the whole field of agriculture, to examine in detail the marketing and distribution of each important crop in every province, we hoped that the material forthcoming in answer to our questionnaire might provide us with a sufficient body of facts upon which to form general conclusions as to the marketing of the more important crops. Only to a limited extent has this proved to be the case. It is clear that the agricultural departments have hitherto had at their disposal neither the financial means nor the trained personnel required to carry out marketing surveys. Moreover, unofficial organizations of middlemen in a position to collect and collate information on matters of facts in connection with the business of their members are very rare in India. Some valuable investigations on the marketing of cotton are in process of being carried out by the Indian Central Cotton Committee. But much of the information essential to an exhaustive study of marketing conditions has never yet been collected." (Para. 322, page 385 of the Report of the Indian Agricultural Commission.) This was the report of the Agricultural Commission on the present state of our information regarding the marketing of Indian agricultural produce. The same remarks apply to the marketing of other Indian commodities, because the Indian and European Chambers of Commerce, the Departments of Industries attached to various Provincial Governments and even the University Schools of Economics have shown equal indifference in the matter.

The principles on which markets may be studied are very clearly and comprehensively suggested by the Agricultural Commission in para. 347, pages 408—410, of the Report. According to it, "the investigator should combine a sound knowledge of economic theory with a practical acquaintance with the conditions of production and sale of the commodity with which he is concerned. He must be prepared to develop his conclusions in accord with facts as these are established by him and must eschew the temptation to mould and colour 'facts' to suit prepos-

sions. He should usually concentrate his attention upon one class of produce at a time, though a group of commodities handled throughout the length of the marketing chain by set of intermediaries may sometimes be conveniently included in a single survey. A survey of production, of internal consumption and of the export-trade, where this exists, will form an essential preliminary to the proper understanding of the existing situation. The extent to which production is localised, and in some instances to which it is seasonal, will demand the investigator's attention. Where reliable and continuous statements of prices exist, he should examine the movement of prices over a period of years and the extent to which seasonal fluctuations appear and to which prices differ between one locality and another. He will attempt to analyse the whole price structure and as far as possible, to measure the margin attributable to various functionaries concerned. He should make himself closely acquainted with the quality and quantity of the supplies. The relation between the producing and consuming centres and the state of communications will come within his purview and he will need to understand the methods by which crop forecasts and crop estimates are made. He will then turn to the conditions of demand and obtain a general appreciation of what is demanded in terms of both quality and quantity. Here again an examination of seasonal fluctuations and local differences will be required. It will not be sufficient to enquire into the nature of the demand unless the extent to which it is met by supplies at remunerative prices is also taken into consideration. A critical examination of the marketing machinery will then follow and the investigator will examine the efficiency of the markets, their physical conditions, their administration and the facilities they offer. At this stage, close attention should be given to the relation of the cultivator to the primitive market, including the influence of debt upon his freedom of choice as to where and when he will dispose of his produce, the extent to which produce is sold to village traders and marketed by them and the tolls and taxes on

the carts or the value of its contents which are levied by the municipal or other local authority. The extent to which a comparison of prices generally between market and market can be taken as a reliable index of market conditions is another point to which attention must be paid. The technical study of storage methods and facilities will be outside the province of the investigator; on the other hand, the study of the amount of storage available, the cost of storage, and the margin available for their recoupment, as well as the consideration of the most suitable place at which to store, are integral parts of a marketing investigation. In the penultimate stage of his enquiries, the investigator will trace the channels through which the commodity passes in its journey from the producer to the consumer. He will study the various types of middlemen and endeavour to appraise the services rendered by each. As far as data are available, he will examine the costs of distribution under different conditions. Finally, the investigator will study the position of the co-operative movement and the extent to which savings in distribution costs can be secured by co-operative sale. At the conclusion of an investigation carried on these lines, he will consider the existing system of market intelligence and the methods by which the utilization of such intelligence can best be extended. He will need help in carrying out his enquiries as they will extend to the villages as well as to the marketing centres and it will not, therefore, be possible for the whole investigation to be carried out by one individual."

The above suggestions are made for investigating the marketing of agricultural produce; but most of them may be accepted even for enquiries about the conditions of general marketing.

An attempt is made in the following pages to describe the most prominent features of marketing which the writer was able to notice in Northern Gujarat and Kathiawad and at Bombay. A few suggestions are offered to improve the existing conditions where necessary, though without scrupulous adherence to the principles just enumerated.

### The Gujri or Fair.

The fair is the most elementary and at the same time the most periodical form of marketing in Gujarat and Kathiawad even now. At Ahmedabad it is known as the *Gujri*—a word which may be described as a reminiscence of the practice of the ancient Gurjaras to meet together on select occasions for trade and counsel. A special day is assigned to this function—Friday at Baroda and Ahmedabad and Sunday at Rajkot. The marketing of all other commodities takes place in the now well-known ways, but in the marketing of milch-cattle and draught-cattle, the fair is even now the most convenient institution. The local authority exercises little control over its functioning, except that it may levy a small toll on the exhibitors, most of whom are exceedingly poor. The weekly fair also helps the urban milkman to purchase milch-cattle without incurring the expense of a ramble in the villages.

The annual Gokul Ashtani fair at Surat brings together a large number of dealers in high-class furniture and one is only surprised that so much local talent should have remained outside public and official notice even yet. No statistical or analytical account is available of the stalls or the transactions in the fairs. Primitive marketing obtains in Bhil tracts in Gujarat and also in the Gir and Nagher parts of Sorath, now under the jurisdiction of the Nawab of Junagadh.

### Revolution through means of Communications. The Establishment of the Northern Market.

Marketing chiefly depends upon communications, and communications in Gujarat and Kathiawad bear importance of their own. More than a decade ago, the B.G.J.P. Railway connected the principal ports of Kathiawad and ran cross-wise from Jamnagar to Veraval and from Bhavnagar to Porbandar. But the whole face of the province stands completely altered now, and excepting in the United Provinces, Eastern Bengal, and some



parts of the Madras Presidency, Kathiawad may claim to be one of the most advanced parts of India in the matter of railway communications. But this is not the only issue. Several States maintain first-class roads, Gondal being the chief. Every village under the jurisdiction of the Gondal State is connected with an important centre of commerce by a well-maintained and free *pakka* road. These roads are feeders to railways and as owing to weather-conditions and considerations of cost, the villager's cart hardly stands in danger of being supplanted by the motor-lorry, they serve as important arteries in the distribution and exchange of local and foreign produce. These advantages of a good system of communications are however often offset by the existence of unhealthy rivalries in the management of railways and often by too much of a profiteering spirit among the States which are the proprietors of the railway systems. Morvi and Gondal have at the same time initiated another important reform—the telephonic service in these States is supplied very cheap and while a telegraphic message costs twelve annas or a rupee and a half, a phone requires the merchant to spend only an anna or two if he happens to communicate with a station under the same jurisdiction. A third factor has only recently intruded in this field. Up to recent times Kathiawad was served by some fairly good ports, e.g., Porbandar, Veraval and Bhavnagar. But now Baroda has opened Okha; Jamnagar is developing Bedi; and Bhavnagar is trying to increase the usefulness of Port Victor. The States concerned are at present seriously handicapped by the Government of India having once more revived the hated Viramgam cordon; but the question will find an early solution after the report of the Butler Committee, and then the marketing of local and foreign produce in Kathiawad will be radically altered.

The development of the railway system in Gujarat and especially Northern Gujarat points to the same conclusion. Ten years ago, all roads in Gujarat and Kathiawad led to Bombay; in the future, the roads of Kathiawad and half the transport of Gujarat will lead to Karachi or some new port in Kathiawad or

near Cambay. The decay of the old ports of these provinces, the railway policy of the Indian Government, political exigencies, the rise of Bombay, and the ignorance of the ruling princes and commercial classes—all these causes conspired in the course of the 19th century to transform their commerce and destroy their ancient connection with Northern India, and compelled them to make Bombay their economic ‘ Suzerain.’ Given an efficient system of marketing, this century-old connection will now be severed, and once more the old relationship with Northern India will be resumed. The relations of Kathiawad and Northern Gujarat with far-off Bombay were to say the least, very unnatural. Some time back the princes unconsciously forestalled this change by linking themselves directly with the Indian Government at Delhi.

### **Commercial and Subsistence Crops in Kathiawad and Northern Gujarat**

The future of marketing which I attempted to describe in the foregoing paragraph is indicated by another revolutionary change which is taking place at present in the agriculture of the provinces. Kathiawad once raised jawar, bajri, wheat, sugarcane, and cotton; Northern Gujarat also raised bajri, jawar, and cotton. In the last decade of the 19th century, the subsistence crops were mostly given up by the peasantry; and excepting for his immediate provision, the Khedut or agriculturist started growing cotton. Just now cotton is giving way to oil-seeds. A time is not far off when Northern Gujarat and Kathiawad will be marketing for wheat from plains of Sindh, irrigated by the Sukkar scheme and the Punjab canal colonies. These lands will also be specialising in the raising of oil-seeds, cotton and wool. Subsistence economy is now slowly disappearing from these tracts; instead, they are fast driving to the state of specialised industry and commerce. Given a scientific tariff, honest and competent administrative services, well-regulated transport, and an efficient

marketing of the produce, the economies of the lands will be completely altered. Right up from Rajkot to Vadad on the Gondal and Junagadh States Railways and from Jam Jodhpur to Dhasa—that is, in half Kathiawad, the peasantry is at present concentrating on the cultivation of groundnut, a crop, which was but scarcely known to the people there a few years ago. So also in Northern Gujarat, though there the change is not so rapid.

### Groundnut.

Mr. Coatman says that “ During the year 1925-26, oil-seeds displaced tea from the fourth position in the list of Indian exports in spite of their decline both in quantity and in value as compared with the previous year. Groundnut continued to show the same marked improvement as in the previous year and exports of castor, cotton seeds and sesamum also increased. Groundnuts contributed 36 p.c., linseed 25 p.c., rape-seed 9 p.c., castor 9 p.c. and cotton seed 16 p.c. Groundnut is supplementing linseed and was purchased by France, Germany, Italy and Netherlands for the preparation of cakes.”

The report of a well-established exporting firm in Bombay makes out the following details in the marketing of groundnut crops in Kathiawad:—

25,000 tons	on the Junagadh Railways.
35,000	„ „ „ Gondal Railways.
20,000	„ „ „ Jamnagar Railways.
10,000	„ miscellaneous.

---

Total ... 90,000 tons.

Reliable data for these exports from Kathiawad States are not available.

### Marketing.

Unfortunately, marketing conditions in these specialised crops are very primitive. There is no up-to-date financing, thanks to the want of confidence in the administrative methods of many of the States concerned. There is hardly any department of co-operation worth the name, except in Baroda, where however the Registrar has not still taken the initiative in matters of marketing. In some States the sale of the produces takes place by auction under the control of Revenue Officers. Excepting in cotton, there are no associations, no rules for grading, etc., no uniform standards of measurement and weights—though luckily in most parts of Kathiawad the latter approximates to uniformity—no control over brokers and profiteers, and no central market-places, organised on a well-conceived plan.

### Patel Houses.

However at Wankaner and Rajkot I noticed Patel Houses. These are useful institutions and if properly looked after, may develop into excellent market-places. The villagers bring their produce to these Patel Houses, park their carts there, enter into bargains with merchants, mix with other producers, discuss the structure of prices, take rest and then in the evening return home. We should take care not to confuse these strange Patel Houses with markets in Bihar or the Mandis of the canal colonies of the Punjab, “which consist of a set of shops built round three or four sides of a rectangle, a wide brick pavement being provided for unloading, examining, cleaning, weighing and bagging the grain. In front of the pavement, there is a wide metalled road, surrounding an open space used for parking of carts. The market is as near to the railway goods platform and sometimes a railway siding runs into it.” (*Para 321, Report of the Agricultural Commission.*)

The Patel Houses are naturally under the control of the States. If the States take care to post commodity-prices there, if they bring the houses within the orbit of a great road or a railway station, and if transactions be brought under greater control, trade and agriculture will certainly profit much.

Mr. Chalmers, Development Commissioner in Burma, suggested similar action to be taken by Government, in his evidence before the Agricultural Commission, for marketing the groundnut crops of his province.

### **Wanted Neutral and Certified Weighing.**

Weights and measures in Kathiawad and Gujarat are not uniform. To see that the peasantry is not cheated, I may venture to make one suggestion. In Bombay, Baroda and other large cities and towns, we have neutral tallymen, doing weighing work on behalf of public institutions like the Bullion and Diamond and Pearl Merchants' Associations. The institution is known in Gujarati as *Dharamno kanto*—the charity balance. It is certified and neutral weighing. The customer has to pay a nominal rate for the work done and the memorandum is then accepted by both the parties. Local Boards, Village-Panchayats, Municipalities and Market Associations and State authorities in Kathiawad and Gujarat may be required by legislation or rules of associations to provide machine weights or other weighing facilities and see that weightment under their certification carries with it the stamp of authority, and what is more important, reliability. Ginning factories and presses do provide such weighing machines but they are beyond the control of the peasantry.

### **Uncontrolled Bargains.**

The villager is the least organized in the lands under review. He is therefore unknown to the agents of the exporting firms which have their headquarters at Bombay and which enter into

transactions with the local merchants, known as *adatiyas*, *veparis*, etc. In the Dhragandhra State, all cotton has to be sold to the State. The State insists on Dholera cotton only being grown by its peasantry. The system has its own disadvantages but in one respect the exporting firms can have secure and certain business. The Morvi State stands guarantee for all purchases and so the marketing of cotton in villages under its jurisdiction is more efficient. In some small States, the villagers' cotton and other produce are stocked by the authorities and auctioned off to the highest bidders, who may be in collusion with the Revenue Officers. Sale through co-operative societies is unknown even in progressive Baroda, and even if it existed, the institutions would find it difficult to keep independent elevators, recommended for adoption by Major R. E. Gordon at the instance of the North Western Railway to the Agricultural Commission for adoption. Again the societies would be under the necessity to engage agents who would auction off the stock to the highest bidders in Bombay or at any other port, say Okha.

### Scientific Auctioneering unknown to us.

The above question brings me to the consideration of another important issue in marketing. Auctioneering is practised on a large scale in our country but few understand it as a special subject. Up to very recent times auctioneering was done in Bombay by European firms but recently intelligent Indians have taken to it and some have specialised in its art. I may here draw the attention of all concerned to study it as scientific business.

### Co-ordination of Markets.

Marketing by co-operation brings the question of co-ordination of markets to the forefront. This is specially necessary in the case of fruits and vegetables. I fail to see why Poona figs cannot be sold in Gujarat and why Surat vegetables cannot find marketing in Northern Gujarat and Kathiawad. No attempt

has been made by the public or by the Agricultural Departments in this connection. In the case of certain kinds of fruits the storage difficulty is undoubtedly great but much of the scarcity and high cost of fruit in Gujarat and Kathiawad can be mitigated if producers and consumers can be prevailed upon to take to intelligent marketing in these commodities. I have seen vegetables at Surat cheap to the point of being almost free of cost. The development of a co-ordinate marketing will become specially important if only we remember that subsistence crops in Northern Gujarat and Kathiawad will in course of time almost disappear. One should very much like to see local, district and central exchanges being established for marketing of fruit, specially mangoes and vegetables.

### **Advertising: Structure of Prices in Diagrams; Intelligence Department.**

A good system of marketing stops waste, prevents a bad geographical distribution of commodities and avoids economic loss to the consuming public. Efficient stamping and grading, standardization of quality and of weights and measures, a high degree of commercial ethics and a good diffusion of education in the public, are the foremost conditions of good marketing. We have discussed some of these features in Gujarat and Kathiawad in the above pages but the discussion was mainly narrowed down to agricultural produce. Here I take up the marketing of one very important commercial produce of Gujarat. I refer to its textiles. The marketing of the textiles of Bombay and Ahmedabad is not as scientific as it ought to be. Bombay and Ahmedabad clothe not only the lower-middle-classes of India—their textiles are exported to East Africa. How many of our textile firms run intelligent and well-informed agencies in those parts? Do they study the day-to-day and seasonal weather-reports of the places, the habits and customs of their people and adapt production to their tastes? An intelligent producer not only adapts his plant

to the requirements of his customers; he even creates tastes and thus gets increased and new opportunities for marketing. We have not yet advanced from the stage of rural economics, where people with small capitals indulged in laborious and astute bargaining, to the stage of large-scale and highly organised economics. Marketing ability of a constructive order is the first desideratum of sound international business. The captains of our textile industry never appeal to the purchasers of their products in their own vernaculars—be it Tamil, Te'ugu, Gurmukhi, Urdu, Pushtu, or Bengali. They do not keep to the same quality, the same branding, the same description, the same weight. Textiles from Lancashire have now become household words even in illiterate India. Can we describe our textiles in the same way? Our salesmen are drawn from ill-educated classes. Their visits to the places of their jurisdiction are the most ill-timed. They rarely understand the moods of the purchasers. The human factor is lacking in their efforts, while advertising is a study in psychology—in fact advertising is scarcely practised. They never know that the good advertiser builds up a demand, which the salesman afterwards crystallizes. Lastly, the price-structure is never diagrammatically described in our papers.

### **Concentration of Markets.**

I ventured to offer a few observations on rural or urban marketing in some parts of the Bombay Presidency in the foregoing pages. I shall close this Paper after suggesting one important reform in the methods of marketing in Bombay, the political and also the commercial capital of Western India. I suggest that Bombay should have its markets and exchanges in the same place. I describe this reform as concentration of markets.

To-day deliveries in cotton take place at the Cotton-Green. Hedge-contracts are often made in the Marwari Bazar, the Indian quarter. The administrative work of the offices, viz., the



chief exporting firms, is done in the Fort. These places are far removed from one another. This occasions the maintenance of duplicate and even triple establishments. Besides, it results in so much loss of time and energy. The markets for sugar, grain and spices are centred round what is known as the Mandvi Bazar, but the administrative work of the offices, with which the Indian merchants are always in communication, is done, as in all other forms of business, in the Fort. The markets for piece-goods, hosiery, pearls, diamonds, gold, silver, etc., are also divided between the Indian quarter and the Fort. I know several merchants maintaining separate establishments at these far-off centres, to be able to be in touch with these two parts of the same market. Now the markets for stocks and shares and for freights and insurance are fortunately located in the Fort. Can't we ask for a concentration of all markets in the most comfortable part of the city—namely, the Fort? Can't we press for another reform?—the reform about the time for attendance, leave, etc. The Indian quarters never close on Sundays or Saturdays. They keep business open from 9 a.m. to 8 p.m. And still the marketing efficiency of the Shaikh Memon and Abdul Rahman Streets is not half as efficient as that of the Fort. In London the Lloyds and the Baltic Exchange, which is regarded as the centre of the freight market of the world, are close to each other. The same practice obtains at Hamburg.

Concentrated markets would enable members to meet together, to discuss matters of mutual interest, and to market more effectively than by telephone or through menial service. They can also study the reports of arrivals and departures of ships, etc.

---

# MARKETING OF AGRICULTURAL PRODUCE AND GOVERNMENT AID

BY

S. KESAVA IYENGAR,

*Nizam's College, Hyderabad*

## SUMMARY

Certain details are given in this article, of marketing of village produce in the Mahboobnagar and Nizamabad Districts of Hyderabad State, as collected during investigations held there by the writer during the last hot weather. Government aid in three directions appears to be urgently called for: firstly, in starting and running co-operative sale societies (engaged in advancing money on the security of the next crop as well as in doing sale work for the raiyat with Government staff in a Subdivision as an experimental measure; secondly, in insisting upon the use of standard sets of weights and measures (supplied to each village by Government)—in the area within a Subdivision, once again as an experimental measure (and in addition, putting up weigh-bridges at important centres where the villagers and the buying agents of firms meet); and, thirdly, in encouraging the formation of joint-stock companies for the purpose of running regular services of motor buses and lorries with Government assistance, somewhat on the lines of the facilities granted to railways. In this connection, the work done by the Indian Central Cotton Committee should prove very suggestive.

The absence of the system of commission on sale of produce to the merchants in the villages of Uyyalwada and Kotharmur is significant; it shows that where there is keen competition among the buying merchants, the raiyat is much better off than in other places where he appears to be more or less subject to a buyers' monopoly.

## I

The only kind of indebtedness found in Gopalpur village is that incurred by the agriculturists for miscellaneous purposes (chiefly for seed, buying bullocks, provisions for consumption). These debts generally begin to be made 3-4 months after the harvest. In the majority of cases, the debts are not cleared up year after year, but continue year to year, the agriculturist borrower paying in something every harvest season and borrowing again during the 6-8 months preceding the next crop. The total debt of Gopalpur is Rs. 3,045. The debtors being 19 in number (19 other families are debt-free), the average debt per indebted family works at Rs. 160.4 nearly.

The terms on which these debts are incurred in Gopalpur vary between Rs. 1-4 and Rs. 2 per month (fraction of a month being counted as one month) for Rs. 100 principal, plus 10 per cent of the sale-proceeds of the harvest, deducted by the money-lender. Every loan, without exception, is given on condition that the borrower delivers all the crop he can spare (the money-lender being the judge; when the crop is actually threshed, the money-lender or his agent is generally on the spot in the village and arranges to carry off the produce straight away to his own place) to the sowcar, and it is the sowcar's privilege to sell the crop at any time convenient to himself and credit the sale-proceeds to the account of the respective borrower at a rate fixed by himself. And in all cases examined, it was found that the merchant-money-lenders credited to the borrowers' accounts 10 per cent less than the harvest market rate in the money-lender's place. Two items have to be taken note of in determining the real interest borne by the borrower. As all harvested crops are measured (and not weighed) it happens that when such crops are remeasured in the merchant's shop some time afterwards, there is a decrease (in weight also there would be a decrease but not so wide, on account of escape of moisture from the grain or oilseed or pulse); secondly, the sowcar bears the charge of

conveying the crop to his own place. In actuality, these items do not amount to much, because the sowcar usually takes care to insist upon additional amounts of the crop being made over to him for every 160 seers, in order to cover the later decrease in quantity. Secondly, the harvest time being fair weather (and the country being plain), the cost of transshipping the produce does not mount high. Careful calculation shows that the borrower-*raiyyat* pays between 23 and 32 per cent (2 per cent being deducted to cover the items mentioned above)

Strictly speaking, the annual percentage should work much higher, the commission charged being interest charged really, on loans ranging in duration between 1 and 9 months in different cases. But, for the sake of convenience of calculation—the period of the loan differing in each case, it would be impossible to determine the annual rate unless in each individual case—the commission percentage is construed in these investigations as for one year. So it is really for one agricultural season more or less.

Practically all the produce is sold by the debt-free *raiyyats* at Devarkadra, nearly 3 miles off. No one holds up his crop with a view to secure higher prices later on, and even in the case of debt-free *raiyyats* the rates they get from merchants are lower than the market rate at the harvest time by 2-3 per cent.

Crops of the village			Harvest price realised by debt-free villagers	Present prices in Hyderabad City
Paddy	...	...	Rs. 12-8 a kudu (160-measure seers).	Rs. 18-25 per palla of rice (paddy not being sold).
Til	...	..	.. 30-35 a kudu.	.. 24-36 a palla.
Jawari	...	...	.. 12-14 ..	.. 11-14-8 ..

*Note.*—In the Hyderabad City Market the prevalent system of weights is: B. G. 80 tolas = 1 seer.

120 seers = 1 palla.

As a set of weights was not taken for the purpose of the investigations in these villages, it was not possible to definitely find the relation between the local measure seers and the Hyderabad City seer by weight.

## II

Out of the 35 householders in Gollapalle village (Mahboobnagar District), 8 are debt-free and the debts of the other 27 families amount to Rs. 4,680, the average debt per indebted family working at Rs. 173-2 nearly.

The loans are all from local sowcars living at Mukthal. All the loans are on crop security; even the labourer promising to the sowcar that he would pay back when he saved more wages at the next harvest season. The interest charged varies from Re. 1 to Rs. 2 per month plus Re. 1 commission deducted by the sowcar when crediting the borrower with the proceeds of the sale of his crop; for every 200 seers of paddy, the commission being proportionate in value in the case of other crops. After allowing due deductions, the real rate of interest charged by sowcars for these crop-security debts varies between  $13\frac{1}{2}$  plus  $6=19\frac{1}{2}$  per cent and  $24$  plus  $6=30$  per cent. In this village, the practice is for the raiyats to bear the cost of conveying the corn they make over to the sowcar, to Mukthal; and this, if anything, adds to the burden.

Local measurements are as follows:—

200-measure seers = 1 kudu.

20 kudus = 1 khundi.

Mukthal is the market where the debt-free raiyats sell their crops. No one holds up his stock with a view to get a higher price.

Crops			Local harvest price realised by the raiyats	Present Hyderabad prices
Rice	...	...	Rs. 17-20 per kudu	Rs. 18-25 a palli.
Jawari	...	...	" 15-17 "	" 11-14-8 "
Bajra	...	...	" 22-24 "	" 13-15 "
Til	...	...	" 36-40 "	" 24-36 "

(The village had a very poor crop of Jawari.)

## III

In Uyyalwada village (Mahboobnagar District), out of 80 families 61 are debt-free (where a family's total due to others works at less than Rs. 2, it is considered in these investigations as debt-free; for, such small sums bear no interest, are not based on any particular security). 18 families owe debts secured by the next crop, and one a land-mortgage debt. The total indebtedness secured by the next crop is Rs. 2,830, and the average debt for the 18 indebted families works at Rs.  $2,830 \div 18 =$  Rs. 157-3-6 nearly. The rate of interest charged ranges between Rs. 1-2 per month and Rs. 2-2 per month for Rs. 100; that is, it works at between  $13\frac{1}{2}$  and  $25\frac{1}{2}$  per cent per annum. *No raiyat in this village pays anything extra in the shape of commission charged by the creditor-merchants for selling the produce.* The explanation seems to be that Uyyalwada is, though distant from Jedcherla, on the high road from the castor-seed area to the exporting centre (Jedcherla), and merchants compete very keenly among themselves in order to get at supplies of castor seed.

The few better-to-do raiyats themselves convey their produce (specially castor seed) to Jedcherla and sell direct to the agents of Bombay merchants stationed there. The other debt-free raiyats sell at Nagar Karnul, while the produce of the indebted is measured out for the merchant on the raiyat's own field, immediately the produce is ready for packing in bags.

Generally speaking, there are two sets of merchants between the actual growers and the Bombay agents at Jedcherla, one set consisting of middlemen at Nagar Karnul and surrounding villages, the other set carrying on their operations at Jedcherla; so that, counting the Bombay agents at Jedcherla as one of the sets of middlemen (in this case they happen to be salaried or commissioned middlemen), the number of middlemen between the actual grower of castor seed and the foreign wholesaler who buys from Bombay, is 4 at least; it must be in actual practice more,

as the Bombay firms buy castor seed not always for direct or immediate export to other countries.

Local measurements are as follows:—

960-measure seers=1 putti.

Crop			Harvest price realised by debt-free raiyats	Present Hyderabad price
Paddy	...	...	Rs. 60 per putti.	Rs. 18—25 a palla.
Castor seed	...	...	„ 120 „	„ 14 „
Jawari	...	...	„ 85—90 „	„ 11—14-8 „

Practically all the raiyats sell off their crop at harvest time, their means being too straitened to admit of safely preserving the produce and withstanding the temptation of handling jingling silver.

The average annual booking of castor seed from Jedcherla Railway Station (on the Secunderabad-Dronachalam Railway) is estimated at about 3 lakhs of bags, that is, about 625,000 maunds.

The road from Jedcherla to Nagar Karnul is not even so good as the one from Jedcherla to Kalwakurthy, even though the castor traffic on the former is much too important to be ignored. At least in 16 places the road descends into declivities along which currents of water pass even with little rain. It is true that most of these currents are short-lived. Yet, in a business like castor-seed trade, the delay of a day or two might make all the difference between profit and loss to the seller. What actually happens at Jedcherla is this. Daily, sometimes by wire more than once a day, the Bombay agents get rate from Bombay, and it is these that determine at what prices they should buy. There is competition as among the Bombay agents, and so, anything like a corner in castor seed is impossible. On the quotations given by the Bombay agents the local *kamtis* at Jedcherla formulate their rates of purchase, and the small merchant (or once in a way, well-to-do raiyats) who brings castor seed from the interior

to Jedcherla, has little notion as to the exact rate at which he would have to sell at Jedcherla. In spite of motor-buses plying between Jedcherla and Nagar Karnul, and the Hyderabad Postal Department maintaining runners for the carriage of mails still the absence of the Postal Telegraph Office and a British Post Office which could undertake direct despatches and direct deliveries of telegrams, letters, parcels, etc. (in the absence of postal reciprocity between Hyderabad and British India), seriously hampers the development of trade in this tract.

On the other hand, the establishment of an Out Agency at Nalgonda by the N. G. S. Railway for booking parcels and goods, further takes away from the prospects of Jedcherla as a trade centre. Much of the trade now flocking to Jedcherla would naturally go to Nalgonda, a much nearer place from which the N. G. S. Railway takes the responsibility for transshipping booked articles.

#### IV

Of the 90 families of Kurumida (Mahboobnagar District), 41 are debt-free; and the debts of the remaining 49 amount to Rs. 8,785, yielding an average of Rs. 179-3-7 nearly per indebted family. The debts range between Rs. 1,400 in one case, Rs. 1,000 each in two cases, and Rs. 15 in a fourth case. All this debt is covered by the next crop—the debtor promising to deliver to the creditor all his produce (except for the first 3-4 months' consumption needs of his own household) for the purpose of being sold by the merchant and crediting the proceeds to the concerned raiyat's account. The raiyats willingly and readily comply with this condition at the harvest time simply because they are confident that whenever during the year following the harvest they are in need of any money [money is generally needed for (i) buying bullocks, (ii) buying agricultural implements or manure—done in very few cases, (iii) litigation—this item is also fortunately very rare in the districts inspected, (iv) paying Land Revenue Assessment—the merchant-creditor pays the



assessment of the debtor in a high percentage of cases, and (v) religious and social functions like marriages, obsequies, etc.], they can always rely on the merchants accommodating them with funds. If the raiyats need grain for seed or for consumption, they can readily get that also without any necessity to pay for it immediately. In fact, the sowcar class does provide, generally speaking, many facilities which no Co-operative Society, nor the Revenue Department in shape of Taqavi, can possibly provide. It is no wonder that in most cases the raiyats feel it a pride and acclaim the fact of their being clients to this or that merchant, and they very warmly feel that loyalty to their respective sowcars is the fundamental condition for the continuance of the "benefits" the sowcars bestow upon them. This appears to be the reason for the bulk of the cultivators not liking to hear about Co-operative Societies. One raiyat observed seriously at Kurumida: "The sowcar, Sir, admits his responsibility, in theory and in practice, to help us in difficulties, to permit default in bad seasons, to delay collections in view of epidemics, etc., in short he enables us to live peaceably. There is not a single case that we know of where the 'sowcar' saw a client of his in jail. On the other hand, if we should borrow from Government or from a Co-operative Society, any single mistake, any default however justified by circumstances, all our properties are directly attached, and we are lost."

The following quotation from Mr. Garratt, a retired I.C.S. Officer, echoes this same argument in very similar words: "The Co-operative Societies flourish because they have the power to distrain, which is denied to the *bania*, and the debtors frequently have to appeal to the latter at the last moment. Too often, the new society is but the old *bania* writ large."

The general rate of interest ranges between Re. 1 and Rs. 2 per month in money plus Rs. 5 commission for the sale of every putti (800 seers) of *dhan* (paddy). Putting the harvest price of a putti at Rs. 50, the commission works at 10 per cent. The nett charge after deducting 2 per cent for the merchant's work-

ing expenses, etc., works at 8 per cent in the shape of commission, and thus the total real interest charge ranges between 20 and 33 per cent.

Local measurements are:—

20-measure seers = 1 ghade.

40 ghades = 1 patti.

The debt-free raiyats sell their produce at Kalwakurthy.

Crops			Harvest price secured by debt-free raiyats	Present Hyderabad price
Paddy	...	...	Rs. 60 per putai.	Rs 18-25 a pilla.
Castor seed	...	...	" 100 "	" 14 "
Jaggery	...	...	" 60 "	" 28-30 "
Til	...	...	" 25 for 144 seers.	" 24-36 "

## V

In Kotharnur village (Nizamabad District), 15 families have no debts, and the total debt of 49 families works at Rs. 2,465, the average debt per indebted family working at Rs. 50-5 nearly.

The interest charged is generally between Re. 1 and Rs. 1-4 per month, *no commission being allowed to merchants on sale of harvest* (except of course the usual additions in order to make up for later decrease in quantity, etc). This absence of commission is probably due to the businesslike temperament of the people who take model from the wearing families. It is also noteworthy that the average debt per indebted family is particularly low here.

The debt-free raiyats sell their produce at Armoor, merchants of which place sell paddy to Nizamabad rice-mills.

The Dichpalle-Nirmal road is now being much improved.

Local measurements are:—

5 $\frac{3}{4}$ -measure seers = 1 paili.

16 pailis = 1 maund.

20 maunds = 1 khundi.

Crops			Harvest price secured by the debt-free raiyats	Present Hyderabad price
Paddy	...	...	Rs. 10 a palla.	Rice Rs. 18-25 a palla.
Jawari	...	...	" 12 "	" 11-14-8 "
Til	...	...	" 14-16 "	" 24-36 "

All the crops are measured in Government sealed seers. But this admits of the use of other measures "as good," and of a good deal of irregularity—how much a measure holds largely depending upon the will, skill and the physical prowess of the measurer.

## VI

In Nasarullabad village (Nizamabad District), 12 families have no debts, and the indebtedness of the other 23 families amounts to Rs. 3,880, working at an average of Rs. 168-11 nearly per indebted family. The oppression by the creditor-merchants is especially heavy here. The monthly rate of interest is between Rs. 1-2 and Rs. 1-4, but the commission which the merchants add to this amounts to between 33 and 50 per cent, making the real interest go so high as between 46½ and 65 per cent.

The sowcars of this village all reside in Bamandeopalli and Mirzapur.

The road from Bodhen to Baswada is being improved.

Local measures are:—

4 measures	= 1 paili.
16 pailis	= 1 maund.
20 maunds	= 1 khundi.

Debt-free raiyats sell their produce at Bamandeopalli and Mirzapur.

Many sell at harvest time for paying Land Revenue Assessment while the majority sell "because they must." In general, they do not keep more than one month's grain out of their harvest for the consumption of their households.

# VII

In Lakshmapur village (Nizamabad District), 7 families have no debts, and the indebtedness of the other 24 families amounts to Rs. 3,570, giving an average of Rs. 148-12 per indebted family.

The real rate of interest works out astonishingly low here, especially in view of the fact that all these loans are crop-security loans, and all from sowcars (*kom'is* and *ranjares*) of Yallareddy, Kalyani and Lingampet. The normal rate is between 12 as. and Re. 1 per month, that is, between 9 and 12 per cent plus commission on sale ranging between 3 and 5 per cent; total between 12 and 17 per cent. In 3 cases the real rate of interest works at 11 per cent. One of the villagers, the Patwari clerk, asked in what way co-operative loans on landed security at 12 per cent interest, with unlimited liability and various other practical difficulties were preferable to the sowcar loans they were getting.

The road from Kamareddy to Yellareddy is just improved.

Local measures are:—

4½ seers	= 1 paili.
16 pailis	= 1 maund.
20 maunds	= 1 khundi.

(for weighing jaggery)

84 tolas	= 1 seer.
12 seers	= 1 maund.
20 maunds	= 1 khundi.

Crops			Harvest price realised by debt-free raiyats	Present Hyderabad price
Paddy	...	...	Rs. 120 a khundi.	Rice Rs. 18-25 a palla.
Til	...	...	" 820 "	" 24-36 "
Jawari	...	...	" 100 "	" 11-14-8 "
Jaggery	...	...	" 30 "	" 20-30 "

## VIII

In Patharajampet village (Nizamabad District), there is only one debt-free family. 17 families owe a debt of Rs. 4,545, giving an average of Rs. 267-5-8 per indebted family.

The rate of interest ranges between 10 as. and 12 as. a month plus 10 per cent commission on sale of produce, totalling up to between 17½ and 22 per cent.

Local measures for grain are:—

4 seers	= 1 paili.
9 pailis	= 1 maund.
3 maunds	= 1 palla.
20 maunds	= 1 khundi.

(local weights for jaggery)

84 tolas	= 1 seer.
12 seers	= 1 maund.
20 maunds	= 1 khundi.

Practically all the produce is sold to Chinnamallareddy sowcars who are the money-lenders of this village. No one keeps the crop for some time in order to try for a higher price.

Crops			Harvest price secured by the debt-free raiyat	Present Hyderabad price
Paddy	...	...	Rs. 80 per khundi.	Rice Rs. 18—25 a palla.
Jaggery	...	...	„ 30 „	„ 28—30 „

## IX

It must be said at the outset that observations which follow strictly apply to the two districts which were visited; some of the observations might possibly apply to other districts in the State, but no such application is intended.

The real rate of interest borne by the raiyats is an impossible rate, and any scheme of rural reconstruction would have to give the first place to the necessity for immediately reducing this rate. Co-operative Sale Societies may be organised, in selected areas to begin with as an experiment, and arrangements made to advance money to raiyats in the agricultural season on adequate surety (personal security of other credit-worthy raiyats in the village), charging not more than Re. 0-13-4 per month per 100 rupees. In the selected area, a Special Officer may be deputed to do this work of organization and finance, with an adequate amount of staff and money at his disposal. If the area should be a Subdivision, the amount required for such advances would be about  $100 \times 3 \times 4,000 = 12,00,000$  rupees. If the Special Officer has at his disposal Rs. 60,000, he should be able to force down the sowcars to his own terms: sowcars would not leave off their job provided they were not put to positive loss. The Special Officer would have to be given at least 3 years' time to show results, all provision being made for audit of accounts. The loans should be made payable direct to the borrower by the Central Bank, the authority for the payment being issued by the Special Officer. Every borrower would automatically become a member—his share instalment for the first year being deducted out of the loan, it being obligatory on every member to deliver to the Co-operative Sale Society all his produce intended for sale. The selling price in the Society should be determined by reference to wholesale rates prevalent in suitable centres where the Subdivision Sale Society should maintain its agent. The Special Officer should concentrate primarily upon villages far away from trade centres and trade routes. The Special Officer would have to confine himself strictly to assisting positively good cases, full precaution being taken to secure good cover for loans.

One uniform system of weights—the one prevalent in the Hyderabad City market (80 B.G. tolas=1 seer, and 120 seers=1 palla)—must be enforced throughout the Dominions. This reform would save for the small raiyat a tangible bit of his income

of which he is being deprived on account of the merchants using measures and on account of each village or set of villages having its own standard for a "seer" or a "maund" or a "khundi." The confusing variations in local measurements disable the raiyat to compare rates obtaining in his own village and elsewhere. To facilitate observation of the prescribed standard, it is advisable that, at least in a Subdivision to begin with, Government may supply to the Police Patel of every village in the area, a set of weights and a balance capable of weighing pallas and fractions thereof with instructions that such weights and balance should be made available free of charge to any of the raiyats in the village. Further investigations may be held with a view to find out the practicability and utility of Government granting monopoly rights to joint-stock companies over stipulated areas, for the purpose of running bus and lorry services regularly along the roads in the area, Government offering certain facilities in the shape of giving all mail carriage contracts along roads to such companies, the latter binding themselves to be regulated by Government in regard to matters like rates, inspection of buses and lorries, etc. The present policy of extending telephone service to the interior is highly desirable, and further extensions (with stations in villages along the roads, levying special low rates for *bona fide* agriculturists) would tangibly add to the earnings of raiyats. Trade centres in Hyderabad State, dealing in crops which are exported in large quantities to and from Bombay, may be given a Postal Telegraph Office each, Railway Telegraphic connections like the one at Jedcherla, do not prove of efficient service to business.

---

# MARKETING

BY

C. GOPAL MENON,

*Madras*

## SUMMARY

It is essential that articles named as wealth should be easily marketable and should possess an exchange value. To find out where those places are and who are badly in need of those articles is what is known as *finding out* or *opening out* a new market.

Two things are, therefore, essential: first, that the objects of our natural desire available to our enjoyment should first be produced, and, secondly, that they should be distributed. It is in this process that marketing assumes the greatest importance.

It is the duty of the merchant therefore to find out where certain articles are obtainable in large quantity and at a low price; and at the same time to ascertain where their supplies are deficient and can be sold at a high price.

It is necessary that in a well-organised concern there should be employed as many persons for the purpose of marketing as in the so-called productive process and an efficient organisation of such men, who are called salesmen, is an essential factor in the development of an industry.

Every manufacturing country has a large number of merchant houses, whose chief duty is that of the directing agency of manufactured goods for the foreign market. The great merchant houses of today, to a great extent, are agency houses, and it is doubtful whether, in the present-day international competition, this merchanting system can hold its own. Nowadays it is usual to find in any of the Indian markets, Salesmen from Germany, the United States and Japan, come to push the sales of their productions, which were once the monopoly of the United Kingdom and



in the case of certain articles, manufactures of India. In order to meet this competition, marketing as a science has yet to be developed to a great extent in India.

The above survey applies to manufactured articles, but there are certain raw materials like cotton, coal, iron, etc., in which marketing was conducted through middlemen in old days but which have now come to be marketed through exchanges. I shall quote the instance of cotton crop. Cotton is now sold through the medium of exchanges. In the earlier stage of the cotton industry wealthy merchants began to act as middlemen between the planters and the spinners, who bought the crop when prices were favourable, and sold when prices were in their favour. Since the introduction of these cotton exchanges and the purchase of cotton on "options" or "futures," a good turn-over has been the result.

It is as well to notice whether this system could not be extended to other agricultural produce as well in India. The Royal Commission on Agriculture has dealt with the question of marketing, and this subject deserves the greatest attention not only of students of Economics, but of our public men and of the Government.

One thing that deserves attention not only for the better and freer exchange of agricultural produce, but also to ward off famine, is to find out better means of transporting food-grains from one part of the country to another. The Royal Commissioners are of opinion that the marketing conditions in India for the agricultural produce are defective and where they exist are not on modern lines.

There should not only be provision for regulated markets, but there should be improvement in communications also. The producer of agricultural articles must be freed from the trouble of marketing. The cultivator should be assured of a real security of tenure. A sound policy for the improvement of agriculture to the benefit of all connected with land must consist of credit facilities, organised marketing and security of tenure. The problem of marketing without setting up Central Selling Organisations by means of Co-operative credit facilities is not easy of solution. With better means of transport and selling facilities and security of tenure, cost of production will be reduced with the ultimate advantage of lessening the price of materials to the consumers.

---

It is a well-known dictum in Economics that useful commodities are not always wealth. Air and water are most useful to human beings but when they can be obtained in abundance, they have no exchange value; and people could hardly exist unless they were extremely cheap. Therefore, it is essential that the articles so named, as wealth should be easily marketable and should possess an exchange value. In places where any articles of food can be obtained in abundance or can be produced with little effort, in quantities far beyond the need of people, there they become low-priced unless they can be sent away to those places where they are needed. To find out where those places are or who are those badly in need of those articles, is what is known as *finding out* or *opening out* a new market; and when such a new demand is created, it is known in mercantile parlance as conferring a new value on the articles.

### IMPORTANCE OF MARKETING

To satisfy such a new demand the article has to be produced in abundance. The science of Economics is "*the Science of the Endeavour to satisfy Human want.*" Want and its satisfaction is the basis on which we carry on the investigation. Not only production, but also a field of at least equal importance which is also part of production, *viz.*, marketing, transport, distribution, retail selling, etc.,—needs our close scrutiny. Two things are therefore essential, first that the objects of our natural desire available to our enjoyment should first be *produced*, and secondly, that they should be *distributed*. It is in this second process, which is as essential as the first, that marketing assumes the greatest importance.

### SEARCH FOR THE MARKET

In this process of production and distribution intelligence plays a great part. It is he who by greater intelligence produces a useful article more easily and economically than others, that

become rich. But it is not enough if he produces them, he should also find means to distribute them to advantage. He must acquire not only an intimate knowledge of the local market, but also of the foreign. It is the duty of the merchant therefore to find out where certain articles are obtainable in large quantity and at a low price; and at the same time to ascertain where their supplies are deficient and can be sold at a high price. He, therefore, buys them in the cheapest market and sells them in the dearest and makes a profit by the transaction. The intelligence and shrewdness of the merchant is essential not only for producing commodities easily and rapidly, but also for distributing them by an economical method of marketing.

### SALESMANSHIP

Economic progress has been achieved at least as much by developments in marketing, transporting, etc., as by changes in a factory house or on the farmyard. It is necessary that in a well-organised concern there should be employed as many persons for the purpose of marketing as in the so-called productive process and an efficient organisation of such men, who are called Salesmen, is an essential factor in the development of an industry. There are certain classes of goods which can be easily marketed as there is a steady and continuous demand for them, and it is always safe to make them for stock; but there are others which are not so readily saleable either because of their being new production which has to compete with those commodities which are well-known already in the market, although they are in every respect equal in quality, or because the demand for such articles is dormant and has to be created.

### MERCHANT HOUSES

This question of marketing is assuming greater and greater importance owing to the keen competition that exists in the business world at the present time. There was a time when certain

classes of articles, such as cotton goods, hardware and retail articles in almost all trades found a ready sale, and under these conditions a class of specialised merchants grew up, who acted as intermediaries or middlemen between the manufacturers in one country where the articles were produced, and the markets for which the goods were ultimately destined. In this way in every manufacturing country a large number of merchant houses came into existence, whose chief duty was that of the directing agency of manufactured goods for the foreign markets. In fact the great merchant houses of today are to a very great extent agency houses, but it is doubtful whether in the present day international competition by the more economic method of production and organised marketing by quoting very finely, this merchanting system will hold its own. Nowadays it is usual to find in any of the Indian markets, Salesmen from Germany, the United States and Japan, who come to push directly the sales of certain manufactured goods, which were once the monopoly of the United Kingdom or are being produced in India at the present time. This keen competition is due not only to the Economic method of mass production, but also to new facilities for marketing by lower cost of carriage and other incidental expenses, and by trying to bring the producers and consumers directly into touch with one another. It is for this reason, that it has become necessary to pay keen attention to marketing efficiency along with productive efficiency. India is particularly trying to produce certain classes of manufactured goods for which she is best fitted, but is often handicapped in introducing them owing either to want of knowledge in marketing same, or owing to the keen competition of the articles produced in more industrially advanced countries.

### OFFICIAL EXCHANGES

The foregoing survey applies to manufactured articles, but there are certain raw materials like cotton, coal, iron, etc., in which marketing was conducted through middlemen in old days,

but have now come to be marketed through Exchanges. I shall quote the instance of the movement of cotton crop. Cotton is now sold through the medium of Cotton Exchanges. There are Cotton Exchanges in various centres of the world now, notably in Liverpool, New York, St. Orleans, Bremen, Havre and Bombay, to facilitate dealings in contracts based on the raw commodity. In the earlier stage of the cotton industry wealthy merchants began to act as middlemen between the planters and the spinners, who bought up the crop when prices were favourable, and held the same for future selling when prices were in their favour. This worked to the advantage of the spinner as it was not necessary for him to buy the whole of his future requirements at once and carry large stocks.

In order to minimise the risk, contracts are arranged which enable the spinner to buy cotton for delivery at some future time and at a price fixed at the time of contracting. These contracts are called "options" or "futures." Since the introduction of these cotton exchanges and the purchases of cotton on "options" or "futures" the quantity of bales represented by the contracts dealt in on the different Exchanges is estimated at many times the total crop production.

### MARKET FOR AGRICULTURAL PRODUCE

While we are on the subject of a system of marketing raw materials say cotton, it is worth while considering the manner in which marketing of other agricultural produce in India is conducted and examine the question whether the present system is adequate or is as efficient as those in existence in other parts of the world. The Royal Commission on Agriculture in India has dealt at length on this aspect of the question and their findings deserve the greatest attention not only by students of Economics of the present day but of our public men and of the Government. India in the past has suffered a great deal owing to famines, and famines play so important a part in the agricultural and industrial economy of

India. If a review of the more severe famines which played such havoc in India for the past seventy years is taken, famines of 1861, 1869, 1876-78, and the more recent famines of 1907-08 and the effects of the drought of 1918, it must be admitted that the effects of famines are not so severely felt at the present time owing to better means of transporting food-grains from one part of the country to another. The severity is also mitigated to some extent by the attention which the Agricultural Department in India is giving to the improvement of the quality and quantity of the cultivators' outturn. One fact which deserves the attention of the student of Economics is whether this outturn is from a larger area of land which has been brought under cultivation or from a more intensive cultivation of a given piece of land, and whether this outturn is from a larger variety of food-grains or merchantable crops. The question for the economic student is to ascertain whether an acre of rice, ragi or wheat is yielding today less or more than it did ten years ago? A correct answer to this will give an index of the agricultural prosperity of our masses. If the greater yield is from commercial crops at the sacrifice of the much-needed annual requirements of food of its population, it cannot then be considered to be agriculturally sound. If, added to this, the marketing system of the agricultural produce is defective, then the cultivator is unable to secure the best financial result for his outturn. The Royal Commissioners are of the opinion that the marketing conditions in India for the agricultural products are defective and where they exist are not on modern lines.

### NEED FOR IMPROVED MARKETING

Intimately connected with the agricultural regeneration is a great policy of organised marketing which will not only secure to the agricultural producer a higher price for his enterprise but to the consumer a cheaper and more ample supply of home-produced stuff.

Not only that there should be provision for regulated markets, but also there should be improvement in communications. It is the improved method of transport facilities which tend to mitigate the severity of famines of the present day. It is essential to a policy of agricultural revival and development that there should be greater facilities for transport by means of our rural roads, bridges, ferries and inland waterways, and what the United States Department of Agriculture says in this connection is well worth our attention :

“ Improved roads are not a luxury to be enjoyed if we have the means and put aside if we have not. The fact is that we lose more by not improving them than it costs to improve them; so that we may say that *we pay for improved roads whether we have them or not, and we pay less if we have them than if we have not.*”

### LINES OF IMPROVEMENT

The most essential thing therefore is to see that the main roads of the country are adequate. We want roads not from the point of view of pleasure motoring, but from the point of view of agricultural and trade needs. It must be borne in mind, and it is also a factor on which the Royal Commissioners on Agriculture have laid stress, that for a revival of agriculture in India and the development of a great nation, wide organisation for the marketing of agricultural produce is very necessary. In order to achieve this, a regular system of collection of loads from individual farms must be organised. The producer of agricultural articles must be freed from the trouble of marketing. For this purpose there should not only be a complete organisation of selling arrangements, but there should also be a programme for the improvement of rural roads.

There is yet another matter to which attention must be directed for the carrying out to success of the agricultural regeneration of the country. The cultivator should be assured of a real security of tenure; otherwise, the saving derived from improved marketing

will go to the benefit of the landlord solely. A sound policy for the improvement of agriculture to the benefit of all connected with land must consist of credit facilities, organised marketing and security of tenure. Unless the cultivator can feel assured of the rewards of his skill and labour bestowed on the land, no far-reaching schemes of credit and marketing facilities will be of any avail. With security of tenure a good cultivator will be encouraged to develop his land to the greatest possibilities, both as regards production of food and employment of labour.

The problem of marketing without setting up Central Selling Organisations by means of co-operative credit facilities is not easy of solution. There should be an organisation set up in every district to contract with the producer his output at a price bearing relationship to the prevailing retail price. It is only then that the producer can be relieved of all responsibility of marketing; it should be done by an agency and the co-operative selling agency can perform this work better than any other intermediary. With marketing and credit facilities, better means of transport and selling facilities and security of tenure, cost of production will be reduced with the ultimate advantage of lessening the price of materials to the consumer.

---



# CO-OPERATIVE MARKETING

BY

BHUPATI B. MUKHERJEE,

*G. B. B. College, Muzaffarpur*

## SUMMARY

The marketing of Agricultural goods in India is extremely disorganised. The margin between wholesale and retail prices is very large. Several attempts to improve this state of things have failed. Success in this direction can be achieved only when marketing is converted into a community function. A plan of marketing Associations on Co-operative lines has been suggested and the formation of a Markets Bureau in charge of a Director of Markets has been advocated.

---

The "Times" in its issue of the 17th July, 1922, remarked: "The greatest weakness in agriculture is on the business side of farming. The systems of marketing are lamentably defective as is shown by the wide margin between wholesale and retail prices. The producer does not receive sometimes more and occasionally less than half of what the consumer pays." This is quite applicable to the agricultural conditions in India. Owing to the absence of an organised market, extreme poverty and ignorance, the Indian peasant is being robbed of the fruits of his labour. In a large majority of cases, the cultivator is compelled to sell his crop immediately after the harvest in order to pay off his debts, which, in many cases, are liquidated by the surrender of a part of his produce. Bad roads and unregulated small *hats* or village markets all over the interior, stand in the way of the free play of the forces of competition bringing about an uniformity of price in the same market. The prices are determined

not so much by demand and supply as by the necessity for money of the cultivator and the cleverness of the purchaser. The evils resulting from individual bargaining in the labour market are to be found in the marketing of agricultural produce in India. The wide margin between wholesale and retail prices gives an idea of the middle-man's profit and also it throws a side-light on the defective system of marketing. I made a calculation of the middle-man's profits over one commodity, viz., Rice, in the Tirhut Division in 1921 and it amounted to about Rs. 33 lacs, while a study of Wheat prices in Bihar showed that one seer of wheat purchased by the middle-man from cultivator at Re. 0-1 3 is sold to the consumer as *Atta* at Re. 0-3-2, leaving a gross profit of 2 annas per seer, or deducting the necessary cost of transport, weighing, milling, etc., the net profit of the middle-man amounts to Re. 0-1-3 per seer. Thus the producer gets only 33 per cent of the price paid by the consumer, while the middle-man pockets an equal or larger share.

This disorganisation of marketing in India is mainly due to the fact that the middle-man in addition to his legitimate duties functions also as the financier of agricultural operations. This gives the middle-man unlimited opportunities to increase his profits by all sorts of questionable methods. In the Punjab, the landowner is indebted to the *Ahrties* (Commission Agents) of the *Mandis* (markets) and is compelled to bring his crops to him. The *Ahrti* buys cheap and further gains from interest on loan and from commissions and other imposts charged on sales. Besides this, the producer has to pay for the *Paledar*, the *Changar* (who separates the dust from the grain), the *Toldar* (weighman) and also for the *Langri* (cook), the *Bhisti* (water-carrier) and the Sweeper. In the Muzaffarpur District in the tobacco trade, the middle-man takes one bundle of tobacco leaves for every maund weighed as *Ginti* (counting charge), while he takes another bundle as *Gangajali* charge. He usually sits on a bundle of leaves when the weighing is done and this bundle too is taken by him as *Baithai*. A further evil is the use of a large variety of weights

in the interior which vary widely from district to district and which stand in the way of the quotation of prices in retail trade over a large area. In North Bihar, the standard 80-tola weight is rarely used in the villages, and in many cases a peculiar 22-*ganda* or 88-tola weight is used in grain trade, which results in 10 per cent loss to the seller. Attempts to improve the grading of the commodities and to prevent adulteration have so far met with little success, except in some specialised commodities as Jute and Cotton and Wheat in the Punjab. This lack of grading is mainly due to the ignorance of the cultivator and the absence of any control over the sales.

The only method of improving this state of things is by the formation of Marketing Associations. Through this agency the community as such performs its marketing function and what the individual tries to perform ineffectively is converted into a community function. Attempts have been made to start these organisations on a co-operative basis in various parts of the country with varying results. The Punjab has got a large number of Commission Sale Shops in Lyallpur, while in Bombay Presidency there are over 30 Cotton Sale Societies at work. Bengal has recently taken up the organisation of Jute marketing on co-operative lines. Much progress does not appear to have been made in the co-operative marketing of Rice, which is by far the most important crop. The difficulties of regulating the market of such a crop, which is so extensively grown and by people who are so very weak financially, are indeed very great but any improvement of the conditions of marketing of this crop is bound to improve the economic condition of a large majority of the cultivators.

The present method is to form a Sale Society composed of at least 10 members, and then with borrowed funds either to purchase the produce of the members or to stock them on the commission basis, and then to dispose of the commodity when the market improves. Such an organisation requires for success a management which possesses business ability of a very high order,

and failure of most of these societies is due to their inability either to serve or to maintain efficient managers. Success in this direction can be achieved only when these individual societies are federated into District Wholesale Organisations which can afford to appoint suitable staff and which can establish connections with the different markets of India and of other countries.

Market regulation has been attempted in Berar and Bombay, and the Royal Agricultural Commission has recommended an extension of this system. Berar provides for a Market Committee composed of representatives of the departments of Agriculture and Co-operation and the traders and growers. The functions of the Market Committee include the prevention of fraudulent weighing, posting of prices and framing of rules for the control of brokers. These committees therefore exercise the powers of negative control giving the producers and buyers all possible facilities to carry on their trade. They do not cure the basic defect of agricultural marketing in India, viz., the inability of the producer to hold up his produce for better terms.

In order to secure the proper remuneration to the cultivators, something more than mere negative control is necessary. The scale of operations which the co-operative society can undertake must be sufficiently large so as to ensure the economies of large scale business. The best method of gaining this object is by combining these two, the co-operative sale society and the market committee.

There should be a Marketing Association in a definite area comprising say 10 villages. The membership would be open to these villages who would send their *Patels*, *Jethraiyats* or Elders as representatives to the Association and contribute to its funds in the form of shares. The association would select a place where the buyer and the seller can very conveniently meet and transact business. Accommodation can be provided for the storage of commodities with facilities for weighing. It must insist on the use of standard weights. The rules of the market will penalise any attempt to cheat and the use of unfair methods. The asso-

ciation will get quotations of prices daily or three times a day from the Central Association in the District Headquarters, and it will arrange to draw the attention of the members to the crop forecasts published from time to time and explain their full significance to them. It will gradually insist on pure, unadulterated goods and introduce gradation of commodities according to standards prevailing in the provincial markets. It may arrange, wherever necessary, for the transport of the goods from the village to the market and from the market to the headquarters market or if it is intended for despatch, to the railway station. Brokers must register their names and deposit some amount as security and they must abide by the rules made for their guidance. In addition to these functions, the association will finance those agriculturists who are compelled to sell their produce at a disadvantage. These loans will be given only on the recommendation of the representatives of the village and in no case will they be given out unless the commodity is kept in custody of the Market Association and not more than 60 per cent of the price will be given as loan. This will not only result in checking profiteering, but it will serve to extend the marketing period and area and prevent violent fluctuations in supply. On all sales, the association will realise a reasonable charge as commission. The law should provide that no sale or purchase of produce can take place for trade purposes, unless it has been conducted either in the market or under the auspices of the Marketing Association, and no bag or bale or package containing these articles will be allowed to be carried either in headloads or in carts, unless it bears a certificate of the association testifying to the quality and the quantity. This policy of centralisation may appear to be an undue interference with the freedom of trade but it is of the greatest importance, as without this pooling of the produce, it will not be possible to secure for the cultivator the legitimate return for his labour. The Village Marketing Association will be managed by competent officials whose work will be supervised by a committee of members. The Village Associations will be group-

ed under a Central Association located at the headquarters of the District or Subdivision. These Central Associations will secure funds in order to enable the Village Associations to advance them to the needy cultivators. It will secure orders for the supply of commodities and arrange for their proper transport from the villages to the destination. It will further obtain daily quotations of prices from the Provincial Markets Bureau and communicate them to the constituent markets. This Bureau will be composed of a small number of the representatives of the District Associations and it will be placed in charge of an official to be called the Market Director. The functions of this Bureau will be to gather and disseminate information concerning supply, demand, prevailing prices and commercial movements of agricultural product. The Market Director will organise and promote co-operative associations for marketing. He will foster and encourage the standardizing, grading, inspection, labelling, handling, storage and sale of any such products. The different Market Associations will look up to him for settling any disputes or will seek his advice for assisting them in the commercial and efficient distribution of such products at fair prices. The Market Bureau will keep Commercial Correspondents at the different important markets of India who will study those markets and send regular reports.

Thus a pooling of agricultural produce and its marketing through well-organised Marketing Associations based on co-operative principles are essential for the improvement of the economic condition of the cultivator.

---



## **CONFERENCE PROCEEDINGS**





## ADDRESS OF WELCOME

BY

MR. K. CHANDY,

*Vice-Chancellor, Mysore University.*

Your Highness, Ladies and Gentlemen,

It is my proud privilege as the Vice-Chancellor of the Mysore University to welcome the 12th Conference of the Indian Economic Association to the beautiful city of Mysore. Some of you have already, thanks to the foresight of our enthusiastic Secretary Mr. N. S. Subba Rao, seen many of the noteworthy places in this State. A hand-book dealing with matters of importance connected with the State has been placed in your hands. His Highness the Yuvaraja, in the illuminating and most suggestive speech that you have just listened to, has told in felicitous language how, in the course of half a century, a steady endeavour is being made to develop the economic and moral consciousness of the people. I trust that all of you will be able to see for yourselves more of this country and its people before you leave us. It will thus be quite superfluous for me to tell you anything about Mysore. I wish, however, to repeat to you what I told the World's Students Christian Federation which met in this Palace less than a month ago, that we in Mysore are proud of our country and of our Maharaja, whose fame has spread all over India and elsewhere for his far-sighted statesmanship. His Highness the Yuvaraja, who is in our midst to-day, has endeared himself to us by his active sympathy with all liberalising and progressive movements. I welcome you to Mysore on behalf of the University which I have the honour to represent during the absence on leave of our eminent Vice-Chancellor Sir Brajendranath Seal. Our

University was founded in the middle of the Great War at a time when the whole Empire was mobilising and turning to the utmost use every resource that it had. Here in Mysore, the State and the University have been endeavouring to make use of all our resources for developing the wealth of the country and the well-being of its people. As regards the University, from its inception, the idea has been steadily kept in view of making it a regional University suited to the needs of the inhabitants of Mysore. We have endeavoured in various directions to co-ordinate academic study with practical life. From the date of his appointment, Sir Brajendranath Seal has never lost an opportunity to preach the need for such co-ordination and in this he has been supported throughout by the Government. Heads of Government departments in Electricity, Civil Engineering, Architecture, etc., have given us the benefit of their knowledge and experience and University Professors have similarly been made use of by Government in the departments of Archæology, Geology, Chemistry, etc. The head of the department of Geology in the Government is himself the head of that department in the University. You are aware that the Secretary of this Conference, Mr. N. S. Subba Rao, was the Principal of one of our Colleges and Professor of Economics when he was appointed to the Tariff Board. One of our Professors Mr. Madhava served as Secretary to the Committee appointed by Government for considering the question of State aid to Industry and another Mr. D'Souza, who is now the head of the department of Economics, acts as Secretary to the Committee for drafting a Trades Union Bill. For the B.A., and M.A. Degree Examinations, students of our University are allowed to combine Mathematics, Statistics and Mathematical Economics along with Economics with the idea of making their knowledge of practical use to the country. Our professors and students are also attempting to get into direct touch with the masses in the country. We have a regular scheme of extension lectures, many of which are delivered in the vernacular of the country on subjects of scientific and human interest. Under Mr. D'Souza's supervision, a dozen

villages have been surveyed by our students as regards their economic aspects and 250 family budgets have been collected. Our research scholars are engaged in an enquiry into the Mortgage Debt of certain taluks in the State. These are matters connected with our University life which I trust are interesting to you.

It is not an easy matter for one like me, whose work lay in other fields, to interest a body of experts on any aspect of the subject of their own study, and I shall not attempt that impossible task. As, however, the University is welcoming you not merely as Economists but also as interested part-takers in the whole life of India. I beg leave with considerable trepidation to speak about one particular aspect of Economics.

There was a time not very long ago, when Science was considered to be matter of immutable laws and the only exponent of reality. Recently, however, the view point of scientists is rapidly changing. Professor Eddington, for instance, says that physical laws throw no light on the nature of the material of the world, that Science gives only knowledge of structure and the stuff of the world may appropriately be called "mind stuff." Mr. Sullivan says that the Quantum and the Wave theory are mutually contradictory and cannot be explained by any general law, that it might happen that the scientific adventure might itself have to be given up and Science is only adventure and not an inevitable acquisition of new knowledge. Some modern Psychologists are questioning even the autonomy of one's personality. Whether each of us is the same autonomous entity or different streams of consciousness or varying personalities at different times is being questioned. In Economics, you are aware that a generation ago, they talked of the laws of Wealth as if they were of the nature of physical laws and not merely "tendencies" which are mostly capable of being manipulated by the human will. These laws were being announced with almost pontifical authority and there seems no doubt that the idea that prevailed that the law of Supply and Demand, of Competition, and other such laws as also the *Laissez-Faire* theory have some value or force in themselves which ought

not to be interfered with, has to answer for a great deal of the misery that exists at present. Economists of the present day, however, are inclined to range themselves among creative thinkers who attempt to find the wisest solution suitable for the times for each phase as it occurs. There was a kind of harmony, however crude and defective it might be, in the ancient and mediæval world; but the modern world has yet to find its harmony and it is a function of the economists to help in that process by attempting to bring order out of the chaos that unrestricted competition, unimaginative capitalism, the exploitation of the weak, the machine mind and other similar legacies of the last century have caused. Without identifying oneself with any particular "ism" that is in vogue, it is being recognised to be a clear duty that all the factors, physical and psychical, that enter into the problem of production and consumption of wealth should always be considered with the definite objective of helping in a creative synthesis for the welfare of our fellowmen. It is being realized that a person who amasses wealth by exploitation and by grinding the face of the poor is not to be regarded as one following the laws of supply and demand, a man of initiative and a captain of industry, but has to be condemned as a criminal against society. One of the few real laws of wealth is the law that wilful exploitation of the poor automatically creates forces of destruction. And in all constructive thinking, it will therefore be perfectly safe, and I may add economically sound, to be biassed in favour of the poor. Wealth and the human personality are both plastic entities; public opinion or the regard of one's fellows has always been and will always remain a most important factor in moulding society and conditions of living, and the mere attitude of learned economists towards problems of the acquisition and consumption of wealth will itself be actually creative of the conditions that they desire to bring about.

I believe that the idea that this is a static world and that unchangeable laws govern it is being finally given up and the dynamic nature of the world seems no longer a matter for doubt.

No one can or need grasp this scheme of things entire for refashioning it, but to be creators in a dynamic world and by clear thought and creative effort, to improve steadily the actual conditions of living is an adventure that is possible and as worthy as the adventure of Science. It seems to be on these lines that modern economists are engaging themselves in their high calling, and I wish their representatives who are assembled here, godspeed in this noble endeavour.

With these few words let me once again welcome you to Mysore and to its University with all my heart.

## SPEECH

BY

H. H. THE YUVARAJA OF MYSORE, G.C.I.E.

Gentlemen of the Indian Economic Association,

I am very glad, on behalf of His Highness the Maharaja, to welcome to Mysore so many distinguished members of your Association, including representatives of a round dozen of Universities, of almost every Province in India, and of a number of the more important of the Indian States. I am especially glad to welcome representatives from our sister country of Ceylon. And I am sure that our young University will be very proud to make you free of its portals, as the members of it will be eager to gather up the wisdom that is to be found in your papers and debates.

Your functions have been described as being the study of man's behaviour in getting his livelihood, and the prescribing of remedies for all the economic ills that may affect the body politic. This being so, I am inclined to think that, while it was a happy thought for us, it was at the same time no bad choice for you when Mysore was selected as the centre for your session of this year. My reason is this. In the scientific study of diseases, it is desirable, on the one hand, to avoid the very complicated cases in which symptoms of several diseases are present at once, with the result that it is difficult to distinguish the one from the other, as is the case with the problems of our great industrial cities. On the other hand, you have been warned against the danger of too much simplification and abstraction such as results in producing that soulless Robot, the economic man, whose machinery needs no medicine but lubricating oil. I think you will find in the State of Mysore the happy mean between these two extremes,—a State abundantly endowed by nature, homogeneous in its population,

continuously under Indian Government, and a State in which for over half a century a continuous struggle has been made to produce, not an economic man but a race of economically conscious individuals.

Mysore, as I have said, is abundantly endowed by nature. Under the surface of the earth, in some cases in mines which go deeper than almost any others we know of, it possesses a variety of minerals the list of which reads like a verse from Revelations:—Gold, chrome and magnesite; green-stone, ironstone and porphyry; dolomite, serpentine and felspar. On the surface, if her soil is not specially fertile, she has a climate under which it is possible to grow a greater variety of produce than in almost any part of the world: rice, jolam and ragi; tea, coffee and cardamoms; apples and oranges; sandalwood and mulberry; and every variety of forest tree and garden produce. She has two monsoons and abundant rivers and tanks, which have been used for generations for irrigation purposes. Her Amrit Mahal cattle formed the chief army transport of a hundred years ago. Her sheep have been known for their mutton, and in a less degree for their wool, for generations.

Her people have been described by His Highness the Maharaja as sincere, liberal-minded, intelligent and industrious. Several of them have achieved high distinction in the arts, especially painting and music. In her Representative Assembly she has the oldest representative body in all India, and her later constitution has been described by Lord Ronaldshay as a constructive contribution towards the solution of the problem of Indian Government.

I have said that there has been a continuous effort for nearly half a century to make her people economically conscious. As long ago as in 1881, Dewan Rangacharlu pointed out that no country can prosper unless its agricultural and manufacturing industries are equally fostered, and referred to the possibilities of the establishment of cotton mills, of the breeding of sheep for wool, of paper manufacture, of the cultivation of sugarcane and coffee, and of the spinning of silk, as means by which such a development



could be promoted. In 1890 Sir K. Seshadri Aiyar repeated the same story. In 1903 Sir P. N. Krishnamurthy did the same. In 1911 His Highness the Maharaja, in a stirring speech, inaugurated the Economic Conference under which all the subjects of the State were to work in unison, each giving what he could spare of wealth, brains or leisure towards the effecting of the economic security and vital efficiency of the people. In 1913 this Conference became a permanent body, and later a part of the regular constitution of the State, and so it has continued ever since. Meanwhile the Mysore Economic Journal has steadily preached the gospel of the Conference, and has now reached its 170th number, while the Civic and Social Progress Association has carried on the social branch of the work. When therefore I read such a statement as that made to you by Sir Rajendranath Mukerji in 1927, that it is for business men and academic scholars together to help in securing for their country that increase in economic freedom and power which will automatically endow India with the status of complete nationhood, I feel that what he was then appealing to you to attempt is very much what we have been trying to do in Mysore for at least fifteen years past.

It would be an interesting study for some of our students of Economics to trace the history of the various activities that have been set on foot by the Economic Conference and estimate the measure of success that has attended them, and the causes of failure where they have failed. Was Sir Albion Banerji right when he said that it is not a mere idle dream that, under favourable conditions, Mysore in the near future will be one of the most industrially and economically prosperous countries in the world? Or did the truth lie with Sir Visvesvaraya when he said that there is a yearning for the old ideals and a half-hearted acquiescence in the new, and that, on the whole, the genius of the people is for standing still? Or does the truth lie between the two? The failures are very obvious to us, especially to those of us who have invested money in them, and I think perhaps they are apt to obsess our minds, and the minds of our visitors, to the obscuring

of the successes. It has become such a matter of course for us now to attend the Convocations of our University, to draw cheques on the Bank of Mysore, to get books from the splendid libraries with which we are equipped, to see electric lighting installations continually being extended, to attend the Dasara Exhibitions, to watch the activities of the Department of Industries, the Agricultural Schools and the Chamber of Commerce, to sleep under Mysore blankets, to get up to wash ourselves with Mysore soap and to clothe ourselves in Mysore silk that we are apt to forget that none of these activities were in existence before His Highness the Maharaja inaugurated the Economic Conference. All this and very much more has been the result of active co-operation between economists, Government officials and business men. There is an infinite amount still remaining to be done, but at the same time I do feel that we can present for your scrutiny the results of a continuous period of co-operation in the economic field of which Mysore has no reason to be ashamed.

On two of the three subjects which you have set down for your discussions at this session we look to you for much advice and help. In the case of the third, "Land Tenures," I observe that three of the four papers to be read deal with the tenures in specific areas, where they are peculiar; while as regards the general question, it seems to me that the trouble and disturbance attending a change are so great that it would need some overwhelming abuse in present conditions or some overwhelming advantage to be gained to justify it.

On the subject of marketing, I am sure that our business men will gladly seek your advice. Mysore is not only afflicted with all the difficulties in respect of grading, prevention of adulteration and advertisement, or the want of it, that afflict India generally, but has also a special problem of her own in that her progress depends to a great extent on those middle grade industries that stand midway between the old handicrafts and the new large scale high-class scientific industries; and the marketing of the products of these is always a very serious problem.

We are still more interested in the matter of imperial and local finance, a problem of which I should have been inclined to say that no ideal solution was possible, were it not for the fact that one of your members is prepared to offer us an ideal solution of the even more difficult problem of taxation. I sincerely hope that you may find a way of reconciling the conflicting interests, not only of the Imperial and Local Governments, but also (what is much more important to us in Mysore) of both these with those of the Indian States.

In conclusion, may I say that I admire your courage and your optimism in tackling, not only these three portentous subjects, but a series of no less than twenty-three papers upon them in a short session of three days? I wish you a most profitable session, and shall follow your discussions with much interest. At the same time I hope that, in spite of your heavy programme, you will not devote the whole of your time to them, but that you will spare part of it to the purpose of seeing and appreciating something of the beauties of the city of Mysore and of the country round.

Gentlemen, I wish you a most fruitful, and at the same time a most enjoyable, session.

## PRESIDENTIAL ADDRESS

BY

PROF. V. G. KALE, POONA.

### ECONOMICS IN INDIA

I deem it a great privilege to have been elected to preside over this, the Twelfth Session of the Indian Economic Conference, and my sense of gratitude is enhanced when I remember that this honour is a renewal of the confidence and the kindness the members of the Economic Association showed towards me at the Sixth Conference at Lahore in 1923 in choosing me to preside at the next session in Bombay, a duty which unfortunately circumstances prevented me from performing. I congratulate myself on this opportunity of making a survey of the position of economic studies in India and of expressing my views on the prospects of our work in the near future. I was one of those who keenly felt the need of an organization and a medium for the expression of thought for workers in the field of Economics in India and took a leading part in launching the Association and its Journal, and I feel very strongly about the little that we have been so far able to do and the much that remains to be done in respect of the study and the teaching of Economic Science in general and the investigation of India's economic problems in particular. It will be no exaggeration to say that perceptibly and imperceptibly Economics is vying with Politics in attempting to mould the destinies of humanity to-day; and no occasion could be more appropriate than the present to take stock of our position in India in this respect and lay down lines for our work.

You will all agree with me, I am sure, when I say that the paucity of professed economists who have attained eminence in their special province and of their scientific output, is not a matter of which India can feel proud. The serious drawbacks of our whole educational system and the inadequacy of the constitutional, the academic and the financial provision made for higher studies by our Universities are too patent and too often discussed to need reference at my hands. And what is the position to-day? In spite of the fact that Economics has figured as a subject for study at our colleges for over two generations, there are hardly any scholars among us whose names may be mentioned with those of the many renowned professors at the Western Universities. At those seats of learning savants have been actively working from their professorial chairs for more years than many of us have lived on this earth. Professors at our colleges in India have taught undergraduates and retired to their European or Indian homes without leaving any traces of their influence or their work. Marshal, Nicholson and Cannan, Fisher, Clark, Taussig and Seligman, Walras and Gide, Schmoller, Wagner, Menger, the Webers, Brentano, Span and Diehl, Wicksel and Cassel, Loria and Pareto, to mention only a few names, are thinkers most of whom have built up traditions, founded schools or systems of thought and spread inspiration which is gratefully acknowledged even in India. The steady, annual outturn of research and discussion in the field of Economics in Western countries is enviably varied and large; and our soil is comparatively barren. These observations are not the outcome of undue pessimism or exaggerated self-depreciation, but only a frank statement of facts, and they have a special significance in view of the high appreciation I feel for the few Indian professors who have been doing commendable work in the midst of difficulties and of the decidedly cheerful prospect that I see opening before me.

The history of economic thought in other countries suggests that when there is an intellectual upheaval and excitement and provocation of surrounding social and political conditions and

when there are urgent national problems to solve, thinking minds are driven to apply themselves to the discussion of economic questions and to impart their ideas to others. Prof. Seligman tells us<sup>1</sup> how this was true of the rise of schools of economic thought both in the United States of America and in Germany. He says:—

“Just as the economic problems of the new German Empire on the close of the Franco-German war gave a prodigious impulse to the development of economic science in Germany so was a like movement accomplished in the seventies of the last century in the U.S.A.” It is worth noting that there was no adequate provision for economic teaching in the States in those days and that England and France were no better in that respect. American students, therefore, resorted to German Universities and studied at the feet of Knies at Heidelberg, of Roscher at Leipzig and of Held, Wagner and Schmoller at Berlin. On their return to the States, these young men were appointed to the chairs of Economics which were created for them at the leading American Universities. The seed thus sown in a fertile soil has grown into a wonderful crop of researchers and scholars who are liberally encouraged and patronised in that wonderfully wealthy country. Everything in that fortunate land is on a large scale; and the study and teaching of Economics is not an exception to the general rule. Provision for the teaching of Economics is made there not only in the Universities and colleges but in the higher classes in the high schools. In the Columbia University there are between forty and fifty teachers of Economics. The interest taken by the educated American public in Economic Science is so deep that the American Economic Association has over three thousand members, and the membership of the Academy of Political Science runs to between six and eight thousand. These figures alone should make us pause and think. Millionaires like Carnegie and Rockefeller have founded chairs and institutes for the work of economic research and study.

<sup>1</sup> Festgabe für Lujo Brentano; “Die Wirtschaftswissenschaft nach dem Kriege.”

The state of things in France has been different and we, in this poor and backward country, may draw what comfort and moral we can out of it. The venerable French savant, Charles Gide, graphically describes<sup>2</sup> how Political Economy in his country has, on the whole, remained loyal to the tradition of the Classical School, how the orthodoxy was maintained intact, for years, under the rigid control of the narrow and exclusive Institute or "Academy of Moral and Economic Sciences," how till the year 1878 there was no provision for the teaching of Economics in any University in France, the work being done at independent collegiate institutions, how after that, Economics came to be yoked with Jurisprudence in one faculty and how it was feared that this admission of the science into the sanctum of the University would open the door wide to heretical dogmas from Germany. Till the beginning of this century the instruction in Economics imparted in the colleges or collegiate high schools was ill-calculated to stimulate a genuine love for the science or the development of economic thought. As in India, the professors had to prepare the students for examinations and had to go through a course prescribed by the Government. It is during the last twenty-five years that the basis of instruction has been widened and the professors have obtained freedom owing to the introduction of the doctorate. Even now the average French student cares to attend only the obligatory lectures useful for his examination and gives the go-by to the others, the 'free' ones. Gide humorously relates how some foreign students, who went to attend his lectures and feared they would find no room in his class, were surprised to see that there were hardly fifteen pupils attending! The French student chooses his professor only with an eye to his examination, and a professor, however renowned for his learning, cannot attract pupils by his attainments or scholarship. His moderate income is independent of his fame and the number of his students. In spite of these unfavourable conditions, Gide maintains, the

<sup>2</sup> Festgabe für Lujo Brentano; "Die Wirtschaftswissenschaft nach dem Kriege."

literary output of French economists is by no means small, and can compare favourably with the outturn of other countries. Pure economics is, in France, an unproductive branch, but questions of social reform and of economic policy are actively and widely discussed. In fact, this is a striking characteristic of the country.

Until very recently, Indian professors were expected only to cater for the needs of undergraduates preparing for the degree examination, the level of teaching and study was very low and the facilities at the colleges were extremely poor, the Universities contenting themselves with prescribing the courses of instruction and examining candidates. Outside the colleges and the Universities, the impulse to the investigation and discussion of economic problems came from the political and social conditions as they steadily developed in the country. Chronic poverty and recurrent famines, the *laissez-faire* and *laissez-passer* attitude of the State, the land revenue and currency policies of Government, the growing indebtedness of the peasantry, over-centralization of administration, famished provincial finance, cotton import and excise duties, the salt tax, the decay of indigenous industries—were matters which chiefly attracted public attention and evoked discussion, and Dadabhai Naoroji, Ranade, Romesh Dutt and Gokhale became exponents of independent economic thought in all such directions. Pure Economics found no devotees, and economic history and economic policies absorbed the attention of such few students as the unfavourable conditions in the country produced. This tendency also finds a parallel in the development of economic studies in France.<sup>3</sup> Apart from political organizations which made it their business to mould public opinion on economic problems, there were neither associations nor journals which devoted themselves to the study of economic theory, the investigation of economic conditions and the suggestion of Government policies. In the

<sup>3</sup> "The French have little taste for pure, abstract economic thought and such as were, in the beginning, inclined that way, soon abandoned the course and turned to questions of social and economic policy; Cournot and Walras have founded no school. To cite my personal example, I was bound to Walras by



absence of initiative and power of any kind to mould things, mental depression and intellectual lethargy reigned supreme. This state of things persisted for years, and little was done either by the Universities or by enlightened public opinion to improve it. Indian economists and publicists found no place on the committees and commissions which were appointed from time to time to enquire into various questions of economic and general public interest. They were thus deprived of the opportunities to handle such problems from the theoretical and the practical points of view; and Government and the Nation lost the benefit of the touch with the realities of Indian life and sentiment which they were best calculated to supply. The atmosphere within the Universities and outside was, in this way, not very congenial to the outburst of economic speculation or to the formulation of plans of economic and social reform, though the little that was achieved in the unfavourable conditions, left no doubt as to the latent possibilities of the nation in those respects. It is needless to refer to such work, *e.g.*, of Ranade, Dutt, Joshi.<sup>4</sup>

But let me hope that we are leaving this depressing past behind, that a new era has now dawned and that the future for the cultivation of the science and the practice of Economics is more encouraging. It is a welcome sign of the times that our newer Universities have provided for post-graduate teaching and research in Economics as one of their regular functions, and University professors have been appointed to guide and control the work. The undergraduate teaching too is being made more efficient and practical. The older Universities have also begun to appreciate the importance of affording to young men opportunities for higher studies in the social sciences and training in the application of their laws to problems of national life. Few will, how-

ties of intimate friendship and he hoped to secure in me a pupil, but circumstances have driven me to associate myself with the co-operative movement which has, in course of time, completely absorbed me."—Gide in *Festgabe für Lujó Brentano*.

<sup>4</sup> Ranade : *Essays in Indian Economics*; Dutt : *India under Early British Rule and India in the Victorian Age*; Joshi : *Writings and Speeches*.

ever, be found to doubt the inadequacy of the arrangements which most of our Universities have been able to make in this connection, and it will be readily admitted that the influence of the University and college professors has scarcely yet begun to tell on the minds and the lives of the student world and the public. Some of the Universities still continue in the old rut; and students are able to obtain the highest degree in Economics by cramming a few books. The awakening is, however, there, and the Universities, the governments and the public will have to make every earnest effort to promote this movement so essential to the best interests of the progress of the country. Secondly, we have now as University professors men who have undergone training at foreign Universities and are qualified to impart to their pupils the spirit of search for truth, of industry in collecting and marshalling facts and statistics and of scientific accuracy and integrity in interpreting them and drawing conclusions from them. The thirst for knowledge, the habit of investigation and the *penchant* for discussion, which were so characteristic of the world of learning in India in olden times, must be revived, and there could be no better means of achieving this end than the introduction of the Western spirit of work in our Universities.

It is again a welcome sign of the times that, to judge from the appointment of Economic Experts on the Fiscal Commission and the Royal Commissions on Indian Currency and Agriculture, as also on the Boards of Enquiry into the application of industries for protection, that Government has given up its old policy of exclusion. Experience of war-time and of the post-war period of reconstruction, has fully demonstrated the value of the co-operation of trained economists in solving economic problems of national and international interest. It is to be hoped that the assistance of economists will be sought in the future in an increasing measure in India to the benefit of the Government and the people of the country. At the Bombay Session of this Conference ten years ago, I ventured, in the course of a Paper, to suggest that an economist should be regularly associated with the Revenue

Officer periodically deputed to make proposals regarding the revised settlement of land revenue so that the problem could be thoroughly and scientifically dealt with. The suggestion did not then appeal to many, but certainly the serious troubles we have had recently relating to rents and revenue were not needed to show the importance of a comprehensive, thorough-going and systematic investigation of a question which affects the lives of large numbers of cultivators. Economists have a part to play in such matters which cannot be allowed to be exclusively dealt with by Revenue and Judicial officials. It is to be hoped that the business community too is beginning to realize that a knowledge of economic theory is not superfluous to the successful working of industries and trade. Recent discussion of the policy of Government in relation to Currency and Exchange and the claims of certain indigenous industrial enterprises to State encouragement and assistance, as also the prevailing labour unrest, ought to make this clear if it has not already dawned on the minds of our capitalists. Nor can our press and politicians afford to ignore the teachings of Economic Science with respect to the ideals they preach and the measures they propose for adoption by the Nation. There are indications that in this regard too a correct appreciation of the issues involved is slowly but surely penetrating the quarters concerned.

No better index of the new economic awakening that is coming over the country can be found than the commendable efforts which are being made in the different provinces to collect facts relating to rural and urban life. Middle class family budgets, the standard of living and the wages of the working classes, the different aspects of the agricultural economy, the co-operative movement, are some of the subjects which are likewise engaging the attention of several, among whom Government officials are seen to take a welcome part. The Papers which are read before our Conference are a significant testimony to the highly systematic and useful nature of the tasks undertaken in this respect by the members of our Association. Here too is essential a close co-

operation of the Universities, the Governments, the professors and the public if substantial results are to be achieved. I may be permitted, without being impertinent, to pay a tribute to the high level of the scientific and practical work that is being turned out by our economists, whether they are members of our Association or not. A good deal of the outturn is indeed creditable and shows that we are treading the path of professors at the Western Universities. During the past few years, every part of the field has been taken up for exploration, and economic history, economic theory and practical economics have been ably handled. I shall not mention the names of the authors as you are all familiar with them. What is now needed is the application both of the extensive and the intensive methods to the work. Research Associations and Study Societies have been started in a few centres, and this activity requires to be spread and strengthened. Our own Journal is admittedly capable of improvement, and our membership must considerably increase. With our limited opportunities and resources, we, who are teachers of Economics and others who are otherwise interested in the subject, must do all we can to rouse general enthusiasm for the science, make people appreciate the value of its teaching for the progress of our country and enlist the sympathy and support of Government and public alike for the cause we have espoused. There is infinite scope for our labours and it will be a number of years of strenuous effort before we can say that we have achieved something appreciable. Wherever one turns, one comes up with an economic problem—why, India's immediate national future itself is one such big problem. We have to strive in the profound faith that we can usefully contribute to its solution. We must make our voice heard and must train the coming generation in the scientific ways of thought. The optimistic note traceable in the above remarks is obviously based not so much on what we are and what we have accomplished as upon what, given the will and the requisite opportunities, we are capable of achieving. It is more the promise than the performance which fills me with hope. The teachers have themselves to set an

example of hard, patient and earnest work which others may be expected to copy. There are arrears to be cleared up and a fresh account has to be opened.

Now, what will be the aim, the principle and the method that we may beneficially follow in our scientific activity? The answer is fortunately available in the rich literary legacy which thinkers in the West have left to us. There is indeed a clash of opinion and a conflict of attitude which is often perplexing and annoying; and it is a notorious reproach against the economists that of all scientists, they are the people who will not agree on anything, not even on the fundamentals of their discipline.<sup>5</sup> While there is some truth in this charge, a careful study and reflection will show that things are not as bad as they are painted,<sup>6</sup> and that a clear path is visible in the overgrown jungle of controversy. Even the natural sciences are not free from academic disputes and theoretical vicissitudes, and in a social science like Economics, I am inclined to regard differences of viewpoint and method as a sign of strength rather than of weakness. We, of this generation, are fortunate in being able to survey with admiration, interest and instruction the grim battles which the old schools of thought fought with one another and the successive triumphs and defeats the combatants won and sustained on the theoretical, methodological and political grounds. The echoes of these fights are certainly audible even to-day, and skirmishes may be seen still going on between the adherents and camp-followers of the old leaders. The economist of to-day can, however, obtain a better perspective

5 S. Helander: "Die Ausgangpunkte der Wirtschaftswissenschaft."

6 "It is often made a reproach against our theory that it is raw and incomplete because there is serious contradiction with respect to its fundamental principle. One who studies the theory carefully will not accept this judgment without reserve. An inquiry into individual problems of theoretical economics will show that while controversial points are not wanting, the new solutions, in spite of their divergence, tend to run in similar directions and that the gulf between the old and the new theory is not so difficult to bridge as is often supposed."—Wolfgang Heller: "Die Entwicklung der Grundprobleme der Volkswirtschaftlichen Theorie."

of things and can realize how each school and system has made its own contribution to the building up of the structure of economic science as we have it to-day. Thinkers are not wanting even now who will attempt a reconstruction of the science from the foundations to the top, on some novel principle<sup>7</sup>; but the general tendency is for the leading economists to reconcile the differences and to arrive at a common understanding with regard to essentials.<sup>8</sup> Dr. Marshall's influence, for instance, has been exerted in this direction. The battles on the score of ideals and methods have been fought mainly on the German soil, and every few years, an author<sup>9</sup> has come out deploring and describing a crisis in the prevalent state of ideas about Political Economy.

The battles of the economists raged chiefly round the following questions:—What is the distinguishing principle of Economics as a science? Can it become an exact science in the sense in which the natural sciences are exact and are economic laws natural laws in the same sense? Has the science a goal of its own and can it pass judgments as to what ought to be and what ought not to be in accordance with its particular notion of 'values'? What is the relation of Economics and social and political policy? Is the economist, as a scientist, competent to give advice as to the suitability or otherwise of measures of reform? Is the keynote of Economics individualistic or organic and social? Is the acquisition of knowledge and the formulation of theory in a certain sphere of life to be the only purpose of the science, or is it calculated to be a guide for action as well? The classical economists who rendered the inestimable service of founding our science, were driven to use the method of abstraction rather too much in their anxiety to discover 'natural laws'; and their conception of economic society became mechanical and individualistic. The

<sup>7</sup> For instance, R. Liefman and Cassel.

<sup>8</sup> Dietzel: "Theoretische Sozialökonomik."

<sup>9</sup> Pohle: "Die gegenwertige krisis," 1911; and Stolzmann *Der Krisis der heutigen Nationalökonomie*," 1925.

'economic man' was the horrid product of this procedure and idea; and in their scheme there was no room for any motive or principle other than enlightened individual self-interest or for State policy, patronage and interference. A theory, when it is first formulated, appears to conform to the conditions with which the author is familiar and to his own ideals and philosophy of life. So was it with the orthodox school; but it was soon discovered that their theories did not square with the social conditions as they developed in England itself, and the good of the community which was expected to result from individual liberty in exchange of activities did not appear to materialize in the case of the large mass of the people.

The reaction against this atomic individualism was started by the Romantic School, led by Adam Muller, who pitted against it the conception of universalism. According to this school, economic life, which is only a part of social life as a whole, cannot be dealt with in isolation without detriment to the community. They went hammer and tongs at the capitalism, the competition and the hankering for gain which characterized the thoughts of the Classical School. "National existence itself in its totality is the true wealth of a nation." "Each individual productive power can produce only when it is itself produced by a higher productive power. If the State ceases to produce, then cease all the smaller productive powers with it." "When it is said that a thing has value, what is meant is that it has value in relation to the whole community." These statements are typical of the propositions laid down by Muller. List's special contribution was the introduction of the idea of nationality and relativity and his substitution of the theory of productive power for that of exchange value.<sup>10</sup> The most deadly attack on the Classical School, however, came from the Historical School which condemned the former's abstract method of reasoning and its theories which appeared to be so far removed from reality. The younger His-

<sup>10</sup> Artur Sommer: "Friedrich Lists System der Politischen Oekonomie,"

torical School which succeeded the elder, while sharing the views of the latter to the full, emphasised the necessity of State interference and measures of social reform, and thus earned the nickname of "socialists of the chair." A particular philosophy of life—German Idealism—was again largely responsible for these conceptions of universalism and solidarity.

The victory of the Historical School was, however, short-lived and did not go unchallenged. The socialists had, in the meanwhile, butted in. They adopted and refined the classical theories and used them as weapons to fight the capitalistic system. Fired with the zeal of historical materialism, the socialists envisaged a future in which capitalism would be crushed under its own weight of industrial concentration, and private property would be done away with by the working classes who, suffering from low wages and poverty, would capture the whole social machine and triumphantly establish the rule of the proletariat. Their theories relating to surplus value, concentration of industry, the reserve army of labour and the final collapse of the whole industrial organization did not pass muster with scientific and critical minds and failed to accord with facts—just what had happened to the Classical School. The chief weakness of the opponents of the founders of political economy lay in the fact that while they had pulled down the old imposing superstructure of economic theory, they had supplied nothing as a substitute for it. While there was a good deal of idealism, a wealth of analysis and description of social institutions and a comprehensive programme of social reform, there was no theory and therefore no science. What was urgently needed, to evolve order out of the prevailing chaos, was the revival of economic theory and the reconstruction of the science. This task was essayed by the Mathematical School, and particularly by the Austrian School, led by Karl Menger. Jevons and Walras made similar attempts independently in their own countries. The new movement spread fast and wide and secured adherents almost everywhere, though outside a narrow circle, it found no foothold in Germany. The goal which the classical



economists had only partially succeeded in attaining, was effectively reached by the new school of thought, though by quite another path. The bridge connecting men and markets, put up by the former, consisted of flimsy stuff such as value in exchange, self-interest and the cost of production; Menger constructed it out of stronger and more durable material extracted from the quarry of the human mind, *viz.*, utility, wants and their satisfaction.

Though the revival of theory and the reconstruction of the science were welcomed on all sides, economists did not build on a uniform pattern. The old feuds had not, besides, completely ceased, and the discomfited fighters repaired their wounds, polished their armours and sharpened their weapons ready for the fray again. The last twenty-five years have, nevertheless, been a period of reconciliation, co-ordination and understanding, and it is important to consider in what respects substantial advance has been made by economic science during this period and what solid ground has been covered by economic thought. It was at one time believed and stated that the war-time experiences and mentality would shatter Economic Science to pieces and that it would then be necessary to construct the whole thing anew in the light of the happenings of the dreadful calamity. Nothing of the kind has come to pass, and the science stands foursquare to all the winds that blow. The war indeed furnished to the economist those experiments which are not normally available in the human social laboratory and taught him many a lesson regarding the necessity of establishing a close touch between economic theory and economic politics. Extensive State control, embargoes and rationing, the breakdown of monetary standards, inflation and deflation, enormous public debts, burdensome taxation, trade boom and depression, labour troubles, cartels and trusts, widespread and distressing unemployment and Government doles, State subsidies to and protection of national industries—these and other such phenomena and measures which characterised the time of war and the post-war period, have served to illustrate the working of economic

laws and have also armed the different schools of economic thought with arguments in support of their favourite theories and against their pet aversions. It is significant that even before the war, the necessity of reconsidering and reshaping their own traditional systems was keenly felt by the adherents of the economic schools, and this represented an attempt to reconcile theory to reality. We thus meet with so many "Neos"—Neo-Liberalism, Neo-Mercantilism, Neo-Romanticism and Neo-Socialism.<sup>11</sup> Economic Liberalism is the lineal descendant of the Classical System and the reconstruction of theory attempted by its representatives, among whom Cassel may be prominently mentioned, has not improved its reputation.<sup>12</sup> Its theory still remains individualistic, unconcerned with the actual social conditions, and moves in the groove of mechanical and natural law. But the fundamental ideas of Liberalism appear to have been shaken even in England, its original home and stronghold. From his exhaustive study of Liberalism and Protectionism in English economic policy since the war, Dr. Leubuscher<sup>13</sup> draws the following three conclusions:—The individualistic constitution of English industry, particularly manufactures, and also banks, has been increasingly replaced by an organized and centralized structure which allows no free play to competition, the pride of English economy of old, and secures a safe control of markets. Another tendency which threatens Liberal principles is the increasing importance which is being attached to the producing classes to the neglect of consumers whose interests were paramount before, which means the weakening of the insistence on a free-trade policy. Thirdly, the same result flows from the claim of different groups of consumers to the maintenance of the standard of living already reached by them. The Liberal principle of

<sup>11</sup> Hans Honegger: "Volkswirtschaftliche systeme der Gegenwart."

<sup>12</sup> Gustav Cassel: "Theoretische Sozialökonomie."

<sup>13</sup> "Liberalismus and Protectionismus in der englischen Wirtschaftspolitik seit dem Kriege."

individual freedom is generally admitted to be sound at bottom, and what is objected to is the exaggerated Liberal idea of its efficacy almost as a universal rule of policy. It has, therefore, already had to make important concessions to the principle of solidarity. Social politics is now held to be compatible with Liberal theory within large limits. It is said that the aim and the means of 'sozialpolitik' must be distinguished. The aim is always the same, *viz.*, the maintenance of the community in health and power, guarding it against the opposition of its parts, particularly for the protection of the weaker classes such as the industrial workers.<sup>14</sup> And even a theory of social politics has now been formulated.

A convincing proof of the process of theoretical adjustment and reconciliation is provided by the efforts of the supporters of the marginal utility theory—described by its opponents as a mere play with words, and deprecated as subjective, individualistic and mechanical—to fit it into the organic conception of society. Wieser<sup>15</sup> recognizes the necessity of making economic theory co-extensive with social theory as exchange activities, or economic life cannot be properly considered apart from general social relations of classes and groups towards one another. American economists like Clark and Seligman, who have adopted the marginal utility theory of value and used it to explain the laws of distribution, have systematically rid that theory of its narrow, individualistic import. Seligman, for instance, speaks of social marginal utility and social marginal cost. He puts man and not wealth in the forefront of his studies, and contends that in the freedom of competition and in the production of wealth not the mechanical and individual, but the social point of view must be emphasised. He also holds that the conclusions of Ethics and Economics cannot long remain in conflict as both have to deal with man as

<sup>14</sup> See articles on Liberalism in the *Festgabe für Lujo Brentano*, 1925.

<sup>15</sup> F. V. Wieser: "Theorie der gesellschaftlichen Wirtschaft" in *Grundriss der Sozialökonomik*, I, Part II.

a member of organized society. The idea that individual economic activity cannot be conceived independently of its organic relation to other activities and to the whole community, receives fruitful development in the hands of the Neo-Romantic School, and the best exponent of this movement is Othmar Spann of Vienna.<sup>16</sup> According to him, the individual is a 'social individual,' impregnated in all his activities by his social character. Economic life is only a means to the larger social life, and yet is influenced by the whole. All economic problems are solved with this key of organic relationship between the whole and the parts. Following Stammler, Karl Dhiel emphasises the influence of law and social order on economic phenomena. He lays down the fundamental principle of his thought in the following words:—"All economic phenomena are bound up with definite forms of social organizations. Economic theory has to explain those phenomena which make their appearance within the limits of definite organizations of economic life, held together by legal ties."<sup>17</sup> Rudolf Stolzman<sup>18</sup> has thrown into bold relief the sharp distinction between the natural and the social sciences, between nature and freedom, causality and teleology, and looks upon economic society as an organization imbued with aim and purpose. The ideas of several other thinkers have moved in a similar direction, and in spite of their differences with one another, they have a good deal in common.

Points of general agreement, as they emerge out of recent discussions, may now be noted:—Economics as a science has its province well marked out; it deals with one aspect of social life which is related to the efforts of men to satisfy their wants. The distinguishing principle of economic activity is the general principle of rational human conduct, the principle of minimum of sacrifice. This principle is, however, applied by the individual

<sup>16</sup> "Fundament der Volkswirtschaftslehre."

<sup>17</sup> "Theoretische Nationalökonomie," I.

<sup>18</sup> "Krisis der heutigen Nationalökonomie."

within the limits of a community and as its organ, and subject to its laws, ethics, usages and traditions. Economic life is nothing preordained, natural and rigid, and we cannot scientifically treat it in terms of quantity only. The science of Economics, dealing with such life, has no ideal of its own to preach, but its theories which are based upon historical and contemporary events, are calculated to show how the social ends that are proposed may be most efficiently attained. Thus are kept apart the provinces of Economics and Ethics as sister sciences, as the mixing up and the overlapping of the two does not make for the scientific treatment of problems. It cannot, however, be forgotten that though Economics has no ethical judgments to offer and must not tread on the domains of Sociology and Politics, which are separate disciplines, it cannot ignore the intimate relation of these two to itself and the influence of social and political conditions upon economic life. Hence the preference shown by many authors to the name Social, National or Political Economy over Economics. This terminology brings out the radical distinction between Economics and the natural sciences with which it got confused in the hands of the Classical School. Apart from the fact that we can speak of the art of Economics, Political Economy is a practical science not only in the sense that it bases its generalizations on facts of actual life, but on the consideration that its theories must throw light on the efficacy of measures which are proposed. It must thus deal with dynamic as well as static social conditions. The economist is, therefore, compared to a physician who, on carefully considering all the circumstances relating to a patient's complaint, suggests what are, according to him, the most suitable remedies to combat the illness. Measures of political and social reform may, in this way, be judged from the point of view of Economic Science, and economic judgments may be offered. The self-denying ordinance<sup>19</sup> proposed for the economist that he must strictly confine himself to the study of what is and the discovery

<sup>19</sup> Bruno Schultz : " Der Entwicklung der theoretischen Volkswirtschaftslehre."

of the laws by which it has so become and must never venture to overstep the boundaries to say what will be or ought to be, appears to be ill-conceived and unnecessary.<sup>20</sup> It is not enough to know the why and the how of things, and a knowledge of the whither also is essential. The restrictions suggested will render Economics sterile and useless and will make of it nothing more than logical gymnastics.

When the mechanical and individualistic conception of economic life is abandoned, it follows that our science has to take adequate account of the mutual relations of different classes and the equilibrium of various forces in working out its theories. Certain activities may be beneficial to the private interests of particular individuals and classes and at the same time injurious to the interests of others, and the Government, representing the community, has to set matters right. This is indeed the origin of all labour and other social legislation. The nation organized as a State, is the largest social unit which is bound by ties of rights and obligations and by duties and sacrifices, and if the equilibrium is seriously disturbed by the action and reaction of forces from within or without the community, Government alone can rectify the balance. Men and nations can modify and improve their condition indeed within certain limits prescribed by Nature, but they are not the slaves of the latter, which can be resisted and moulded by organized effort, as the history of the Western World demonstrates. List's theory of productive power and his tariff for national uplift receive their best support from these considerations. To speak of World Economics and Cosmopolitanism in this connection is as unmeaning as to rely on the self-sufficiency of individualism. For the convenience of detailed study we may divide our discipline into Pure Economy, Individual or Private Economy, State Economy, National Economy and World Economy.<sup>21</sup> But the economy of the most vital importance in the

<sup>20</sup> R. Wilbrandt : "Einführung in die Volkswirtschaftslehre," I and IV.

<sup>21</sup> Sartorius von Waltershausen : "Die Weltwirtschaft."

world, as it is politically constituted to-day, is National Economy. The doctrines of Economic Science are expected to cover all these branches or phases, and it is now generally agreed that there is no World Economics comparable to National Economics. We hear now-a-days people speaking (and acting) in terms of nationality and empire in economic affairs; and empire products, imperial markets, imperial preference and interimperial migration, are concerned with political policies actually worked out. There is indeed the risk of an economic scientist turning out a party-politician and of his being a bad politician and a worse economist.<sup>22</sup> But this description carries condemnation on its very face. If economists are not to give expert advice, what do they exist for and what is the meaning in our insisting that their co-operation should be sought by Government in investigating and solving social problems? Western nations recognize the value of the services of their economic experts.

Now, what has been the trend of economic thought and practice in India during the last few years? It will be found, on a little reflection, that the movement, though slow, has been, consciously or unconsciously, along the lines sketched above. Ideas and policies in this country, were at first under the powerful influence of English orthodox opinion represented by Ricardo, Mill and Fawcett; but Indian thinkers soon broke loose from its grasp, and the revolt is best illustrated by Ranade's masterly exposition of Indian Political Economy. The lead has proved effective. Government in India has, for years, recognized its function of correcting the disturbed balance of social forces by legislating to protect the ryot against the sowcar, the agricultural against the non-agricultural classes, the tenants against the landlords and the workers against their employers. But it hesitated to pursue the same policy in relation to the forces of disturbance coming from outside. Max Weber<sup>23</sup> has said that economic

<sup>22</sup> Adolf Weber : " Die Aufgaben der Volkswirtschaftslehre als Wissenschaft."

<sup>23</sup> Hans Honegger : " Volkswirtschaftliche systeme der Gegenwart."

organization is fundamentally rooted in politics, and must, in the last resort, be explained through it. J. M. Keynes showed how the British Government and Parliament brought depression on British export industries by their exchange policy of artificially restoring the normal rate in the middle of 1925; and a similar complaint has been made against Government in this country also with regard to the exchange ratio. During the last few years, at least four important public inquiries have taken place in India in relation to questions of great importance, and certain changes which have resulted from them may be attributed, in no small measure, to the political influence of the Indian legislature. The Fiscal Commission recommended the adoption of a policy of protection and the abolition of the cotton excise duties, and Government accepted a radical alteration in its traditional economic policy. As an outcome of another enquiry, the principle of direct Government management of State railways had to be adopted, though it had been declared to be un-economic. The Currency Commission condemned the gold exchange standard as utterly unsuited to the peculiar conditions of India though it failed to give sufficient weight to such considerations on the vital question of gold currency and the exchange ratio. The Royal Commission on Agriculture has made one very striking observation which goes to the very heart of the matter we are dealing with here. Declaring that the most important factor making for agricultural prosperity is the outlook of the peasant himself and that the success of all measures designed for the advancement of agriculture must depend upon the creation of conditions favourable to progress, the Commission maintains:—"The demand for a better life can, in our opinion, be stimulated only by a deliberate and concerted effort to improve the general conditions of the country side, and we have no hesitation in affirming that the responsibility for initiating the steps required to effect this improvement rests with Government." It proceeds to state that the failure to grasp the full significance of this proposition explains the absence of any co-ordinated effort to effect the required change



in the surroundings and the psychology of the peasant without which there can be no hope of substantially raising his standard of living.

This frank and emphatic statement of the Royal Commission furnishes the key to a correct understanding of the larger problems of Indian Economics—a terminology which, by the way, is still found perplexing by some thinkers in this country—and apart from their narrow aspect of immediate political expediency, controversies in connection with such questions as those of the Reserve Bank, reservation of coastal trade, purchase of Government stores, Railway rates and the investment of foreign capital in India, are not likely to be intelligible in their economic bearings without its help. We have long played hide and seek with our problems. Consider again the condition of the Indian peasantry. The Revenue authorities study it from the restricted point of view of taxation and rent, and Ricardo's theory of rent is used or misused in the process. The Irrigation Department must be run on a commercial basis and is concerned with its income from water rates to be charged to the cultivator. The Forest Department has its own rules to enforce on the peasantry, surely in the best interest of the nation's valuable property. The Agricultural Department wants the ryot to adopt improved methods, and co-operators urge him to join their movement, both with the idea of increasing his income, a good slice of which is, however, taken away by the Indian Finance Member through his exchange policy. The Government and the Legislature propose to consolidate his holdings and prevent fragmentation. The Local Board wishes him to pay higher rates to be able to enjoy greater amenities of life and Government cannot do without more money coming from the same source. The advocates of *khaddar* preach to him the virtues of the *charkha*. And the sowcar is all the while there watching the whole game with interest and curiosity. The problem is thus handled piecemeal, the friends of the ryot play at cross purposes and nobody knows exactly how the agricultural industry and the peasant stand economically. It is hardly realized that no amount of research on crops, fertilizers and pure seed—things

valuable in themselves—will improve the condition of the peasantry until we study the ryot as a whole as well as in parts. An intensive study of the different aspects of his life and activities is indeed indispensable, and much work has still to be done in this direction. We, in this Conference, have been doing our bit and discussing such problems, *e.g.*, marketing and land tenures, and much more needs to be done throughout the country along the same lines. But we must also see things in their proper perspective. The social, the organic, the national point of view must never be lost sight of in all such questions.

It will be superfluous to state that in our teaching and study the foundations of general economic theory must be laid strong and deep, and a weak grasp of it is responsible for much of the inefficiency and futility of Indian education. We have a rich store of literature to draw upon for this purpose, and it has to be fully utilized. Detailed investigation and research into all branches of social life is the great need of the hour in India, and our ignorance in this regard is colossal. Collection of facts and their interpretation will enable us to apply, illustrate and modify economic theory where necessary and even to reconstruct it. And then comes the scrutiny of measures of reform proposed and the formulation of policies for the guidance of Government and public. As we cannot neglect the first, we must not fight shy of the last. It should not be forgotten that Economics has been, from its birth, a theoretical and a practical science and that while inspired by prevalent forms of philosophy, it has had its eye on and not lost touch with reality of life. Recent tendency of thought makes this quite clear, and text-books on Economics<sup>24</sup> pay special attention to economic policy, devoting separate chapters or volumes to the discussion of practical economics.<sup>25</sup> The problems to be handled are too numerous to mention here, covering, as they do, the whole of India's social and economic life. In studying

<sup>24</sup> Philippovich : "Grundriss der Politischen Oekonomie."

<sup>25</sup> Wolfgang Heller : "Theoretische Volkswirtschaftslehre."

and expressing opinions on them, the economist has to do his work patiently, scientifically and fearlessly in view of the country's history, its social structure, its philosophy, its political condition and its needs of material development, leaving it to the statesman and the politician to use the lever of authority to carry through measures of national benefit. These are the lines we have to follow in this country, and that is the purpose and the province of *Indian Economics*.

## LOCAL SECRETARY'S REPORT

The Indian Economic Conference was opened in the Durbar Hall, Jaganmohan Palace, Mysore, on the 3rd January, 1929, at 9 a.m., by His Highness Sir Sri Kantarivanarasinharaja Wadiyar, Bahadur, G.C.I.F., Yuvaraja of Mysore, in the presence of a large and distinguished audience. The following Representatives of Universities and members of the Indian Economic Association were present:—

1. Prof. R. M. Joshi (Bombay).
2. Prof. T. K. Doraiswamy Iyer (Madras).
3. Prof. V. G. Kale (*President*).
4. Sir Charles Todhunter, Kt., K.C.S.I.
5. Principal G. Findlay Shirras (Ahmedabad).
6. Prof. H. R. Batheja (Patna).
7. Prof. C. D. Thompson (Allahabad).
8. Mr. N. S. Subba Rao (*Local Secretary*).
9. Mr. K. B. Madhava (Mysore University).
10. Mr. James Kellock (Bombay).
11. Mr. L. N. Ghosh (Calcutta).
12. Mr. D. N. Banerjea (Dacca).
13. Mr. E. S. Sunda (Madura).
14. Dr. D. Pant (Lucknow).
15. Mr. B. B. Mukerji (Muzaffarpur).
16. Mr. N. S. Narasimha Iyengar (Trivendrum).
17. Mr. Arthur A. Perera (Ceylon).
18. Mr. T. K. Shahani (Bhavanagar).
19. Mr. S. V. Iyer (Dacca).
20. Mr. S. Kesava Iyengar (Hyderabad).
21. Principal J. W. Thomas (Lahore).
22. Mr. L. C. Dhariwal (Indore).

23. Mr. Shama Rao Vithal Kanungo (Indore).
24. Mr. K. H. Kamdar (Baroda).
25. Dr. P. Basu (Indore).
26. Mr. K. T. Shah (Bombay).
27. Dr. H. Sinha (Calcutta).
28. Mr. Habibur Rahman (Hyderabad).
29. Mr. A. Wickramarane (Ceylon).
30. Mr. P. C. Ghosh (Calcutta).
31. Mr. P. S. Lokanathan (Madras).
32. Dr. Andreas Nell (Ceylon).
33. Mr. K. C. Ramakrishna Iyer (Madras).
34. Mr. D. G. Karve (Poona).
35. Mr. S. K. Muranjan (Dharwar).
36. Mr. V. L. D'Souza (Mysore University).
37. Mr. B. Tirumalachar (Mysore University).
38. Mr. Gyan Chand (Patna).
39. Mr. T. Ramachandra Rao (Madras).

His Highness welcomed the members of the Conference and his speech has already appeared in the press, as also the speech of Rajasabhabhushana Mr. K. Chandy, Vice-Chancellor, Mysore University.

Professor T. K. Doraiswamy Iyer proposed and Professor James Kellock seconded that Professor V. G. Kale be President. Thereupon, Prof. Kale delivered his Presidential Address which has also appeared in the press.

Principal G. Findlay Shirras proposed a vote of thanks to His Highness the Yuvaraja for graciously opening the Conference. Thereupon, the Conference adjourned and met at 11-30 a.m. for discussion of the Papers in the Durbar Tent, Staff Quarters, where a large number of delegates were staying.

The first subject that was taken up for discussion was Land Tenure. Four Papers had been sent, *viz.*—

1. The System of Land Tenure in Some Districts of South Bihar (Mr. Gyan Chand),
2. Land Tenure in Kumaon (Dr. D. Pant),

3. Transfer of Occupancy Rights in North Bihar (Mr. B. B. Mukerji), and
4. The Economic Incidence of Tenurial Systems (Dr. P. J. Thomas).

Mr. Gyan Chand (Patna) who opened the discussion emphasised the dominant position occupied by the landlords in South Bihar. Some of these landlords in the districts mentioned were indeed very small ones, but they subjected the tenants to rack renting. He argued that the system of produce rents led to inefficient cultivation. The existing system of land tenures and the relation between the landlord and the tenant did not afford scope for agricultural improvement.

Dr. D. Paut (Lucknow) who followed, briefly summarised his Paper, and in particular emphasised the need for obtaining for the community the benefit of the lands now enjoyed by temples and their priests. He was also of opinion that increase in land assessment should be made clear to the person who is called up to pay more.

Mr. B. B. Mukerji (Muzaffarpur) suggested the necessity for legislation on the lines of the Land Alienation Act in the Punjab.

Mr. N. S. Narasimhan (Trivendrum) was of opinion that the terms of reference to the Royal Commission on Agriculture were defective in that they placed questions relating to Land Tenure outside the scope of the Commission, and argued that there was an intimate connection between the tenures and cultivation. He advanced the position that economy of labour was not desirable in Indian agriculture, since there was no alternative occupation for labour released from land. Therefore, efficiency of agriculture was to be gauged by the number of persons that found occupation on land.

Mr. C. D. Thompson (Allahabad) described the new legislation in the United Provinces to protect Occupancy Rights, as a result of which on the one side tenants had been given tenure for life, and three years beyond for the heir, while on the other, the landlord was permitted to acquire the land of the tenants if he

was going to cultivate himself. Thus both peasant farming and capitalistic farming would be given a chance, and the Legislature should know how to move forward. He pointed out that there would always be a surplus, and an increasing surplus, from land. These surpluses might be well used or ill used, whether given to the tenant, the landlord or the Government. The right policy was to give the surplus to that body that was capable of using it best, *i.e.*, to the best advantage of the community.

Mr. T. K. Doraiswamy Iyer (Madras) objected to landlords being called parasitical, for that matter the professional classes might be called parasitical. Agricultural prosperity would only be promoted by proper co-ordination of the activities of the different agencies of Government. This as well as correct public opinion were required to create conditions which would result in a higher standard of life for the cultivator.

Mr. S. K. Muranjan (Dharwar) pointed out that produce sharing would give a powerful incentive to landlords to effect improvements, whereas cash rents would be attractive only in a period of high prices. He suggested the establishment of machinery to revise produce rents every ten years. He was opposed to Professor Mukerji's proposal with regard to the compulsory acceptance of restripment, as it was unsound and would not relieve the main difficulty.

Mr. K. C. Ramakrishna (Madras) pointed out that no Royal Commission could tackle the question of land tenures, as it was extraordinarily complex and varied from province to province. The work could be better done by local committees. The main source for the agrarian trouble was pressure of population, and he suggested reclamation of waste lands, encouragement of internal migration, industrial development and measures to regulate population. He pointed out that legislation to regulate land alienation did not achieve its object, and conferred benefits on classes that required no such help. The situation called for greater inducement to the urban and professional classes to settle on land.

Mr. Habibur Rahman (Hyderabad) was of opinion that the Government did not interfere enough in the matter.

Mr. R. M. Joshi (Bombay) took exception to Mr. Narasimhan's remarks and pointed out that they must keep the goal clearly in mind and devise methods to reach the same. The goal was maximum produce and not maximum employment of workers on land. If maximisation of produce led to unemployment the persons thrown out must resort to other avenues. The main question with regard to land tenures was the discovery of a system which gave the maximum yield from an acre. This question should have been tackled by the Royal Commission. Unfortunately, they tackled other problems which had already been discussed threadbare.

The President in bringing the discussion to a close pointed out that mere tenancy legislation would be of no avail without an all round improvement. The relations between the landlord and the tenant should be placed on a better footing. He was also not prepared to accept the position that maximisation of yield could be envisaged without reference to the field of employment open to the people of the country.

### FEDERAL FINANCE

In the afternoon, after lunch, the Conference took up the topic of Federal Finance for discussion. Several Papers had been submitted to the Conference, viz.—

1. Federal Finance in India by Prof. K. T. Shah.
2. Division of Functions and Division of Resources in India by Prof. R. M. Joshi.
3. Central and Provincial Financial Relations in India by Prof. S. V. Iyer.
4. A. Revenue System for Indian Central and Provincial Government by Principal T. K. Shahani.
5. Federal Finance or a Plea for the Rationalisation of the "Meston Award" by Prof. D. G. Karve.



# 6. Memorandum and Statistical Tables on the Need for Readjusting Central and Provincial Finance in India by Principal G. Findlay Shirras.

Mr. Shah of Bombay in opening the discussion said that there was an irresistible and inevitable drive towards Federalism. In any scheme of Federalism the Indian States could not be left out of consideration, though a distinction may have to be made between the interests of the Princes of these States and those of the peoples in these States. The problem was, how to redistribute the financial resources of the country so as to guarantee to each part a maximum of civilisation. A great deal of leeway had to be made up, as certain services had been greatly neglected. There was also a considerable margin for reducing expenditure. As regards the States, apportionment of Customs was not possible, but there might be contributions in cash, after once a basis had been obtained with regard to their legitimate share of expenditure on the army.

Mr. Shahani (Bhavanagar), who followed, said that the Montford Reforms which differentiated Provincial from Central Finances failed to realise two important principles, *viz.*—

1. To assign to each sphere of Government revenues adequate for the purposes of the functions to be discharged.
2. To demarcate spheres of Government so as to make the revenues accrue from the sphere of Government.

He said that the Meston Committee had similarly failed to appreciate these principles, since they were engaged in the task of converting a unitary system into a federal one, and, therefore, their principal aim was to fortify the Central Government financially. Mr. Shahani drew a distinction between the functions of the Central and the Provincial Governments: the former related to maintenance of integrity, unity and safety and the latter related to development. He therefore proposed that the Central Government should take Customs and all Excise (including country liquors), Currency, Railway, Commercial Stamps, Posts, Telegraphs (for reserve fields—Succession duties, tobacco

excise), while the Provincial Government should take taxes on incomes and property (Agricultural income included), Forests, and Irrigation, Judicial Stamps, Entertainment Taxes, Licenses and Registration Fees. (For reserve fields—Corporation Taxes.)

Mr. R. M. Joshi (Bombay) pointed out that the two main sources of Provincial Revenue were inelastic and decreasing, whereas Central Government had in Custom and Income Tax two sources which were greatly elastic. In his opinion, Excise revenue should be transferred to Central Government, while personal income tax should go to the Provinces. It would then be possible to link up Military expenditure which should be reduced *pari passu* with Excise, which also required reduction, and possibly might even disappear by the adoption of the policy of prohibition. Mr. Joshi advanced the doctrine that land revenue was in fact a local rate which should be utilised for rural education and development, and therefore should be transferred to local bodies. He held that ability to pay could never be the basis for land revenue.

He was followed by Messrs. S. V. Iyer (Dacca) and Karve (Poona), the latter of whom in addition to advancing the main position of his Paper opposed prohibition by legislation.

4th January, 1929:

Mr. Gyan Chand (Patna) who continued the discussion was anxious to get away from the "Meston Award." In future each Province should give according to capacity and get according to needs. It was no doubt true that the past liabilities could not be liquidated at once. Any scheme was provisional, but the transfer of land revenue to local authorities, as proposed by Mr. Joshi, was unthinkable. The point he wanted to emphasise was that the fundamental basis of the Meston Settlement was wrong. They wanted to have a financial clean cut to fit in with administrative clean cut. Provincial autonomy was linked with financial segregation. Such a system obtained nowhere in the world. He was opposed to the transfer of the Excise to the Central Government and was equally convinced that Provincial Income Tax was

impossible. With regard to a tax on agricultural incomes which had been suggested in the Papers, he considered that what was wanted was differentiation in respect of large incomes. This need could be met by a graduated tax on the capital value of property in addition to land revenue. Finally, he urged the need for a permanent financial commission to deal with these and other questions.

Mr. Findlay Shirras (Ahmedabad), in summarising his Paper, explained how he attempted to ascertain the taxable capacity of the Provinces. He considered that the industrial provinces had not come out of the Meston Settlement equitably. He drew attention to his specific proposal of additional taxation and suggested a Council to regulate borrowing. In his opinion personal incomes should be taxed by the Provincial Governments.

Sir Charles Todhunter (Mysore) who was invited by the President to participate in the discussion suggested for the consideration of the Conference the expediency of a basic rate for Imperial Revenue with additional rates for the Provinces. In respect of Excise, he considered that the enormous number of rates in vogue at present should be reduced. He did not consider that the Income Tax could be transferred to the Provinces.

Mr. Batheja (Patna) pointed out that all the suggestions would be futile unless they proceeded from the point of view of expenditure. It must be remembered that expenditure even of Provinces could now be increased by the Secretary of State for India. With regard to transfer of Excise to the Central Government, the Conference should note the consequence to Provinces like Bihar and Orissa, which depended to a very large extent on the revenue from Excise, the loss of which would not be compensated for by the transfer of Income Tax or by taxation of agricultural incomes. He considered that reversion to divided heads might after all be necessary and that Excise and Income Tax may be so divided. A clean cut was out of question, and in view of the fact that development was solely needed, the country wanted additional sources of revenue.

Mr. T. K. Doraiswamy Iyer (Madras) said that the "Meston Award" was made under the belief that political rearrangement required financial readjustment. He agreed that a clear cut in finance was neither desirable nor possible. A reconsideration was necessary in respect of provincial finance. In a period of surpluses redistribution was no doubt easy, but the policy of clear cut had failed. There was a need for stock-taking, and it must be remembered that there might be changes in the distribution of Provinces as well as in the finances of the Central Government which would upset any temporary equilibrium that might have been reached. He held that all expenditure that resulted in common benefit should be financed by taxes based on ability.

Mr. C. D. Thompson (Allahabad) argued that the distinction drawn between Agricultural and Industrial Provinces was untenable. The real contrast was between the rural and the urban areas in all the Provinces. The so-called Agricultural Provinces were rapidly becoming industrial and even the United Provinces was importing food, the conventional sign of an industrial area. There was no doubt that the cities were relatively undertaxed. He considered that three things made the distribution of taxation inequitable as between the rural and urban areas. In the first place, industrial incomes were on the whole less heavily taxed than agricultural incomes. Secondly, urban land was taxed lighter than agricultural land, and lastly the prevalence of permanent settlement in some provinces made taxation uneven since the rate of taxation varied from 8 per cent to 80 per cent. He emphasised that in addition to the Central and Provincial Governments, there was a third partner, *viz.*, Local Bodies. He considered that a percentage tax on the capital value of land was urgently called for.

Mr. Muranjan (Dharwar) questioned the reliability of Mr. Shirras' Index Numbers. If his argument held, ryotwari provinces would be condemned to stagnation. He was opposed to the transfer of Excise to the Central Government since prohibition should be a matter for Local Governments to deal with. Prohibition would mean increased Police work, and Police was a provincial subject.

Finally, he drew attention to the fact that the Central Government possessed the power of affecting the provincial revenue by its currency policy, and considered that some arrangement should be made for compensating the Provinces for losses resulting from the adventures of the Central Government in Currency Legislation.

Mr. Dhariwal (Indore) drew attention to certain general principles which should be borne in mind in such discussions, and was anxious that any proposals the Conference should make should be regulated by practical consideration.

Mr. Kesava Iyengar (Hyderabad) argued that so far as the bigger Indian States were concerned, there was no place for them in any federal system.

Mr. D. N. Banerjea (Dacca) was sceptical about the chances of undoing the permanent settlement of Bengal and pleaded for exempting indigenous tobacco from taxation.

Messrs. Shah, Shahani and Joshi replied to the criticisms on their Papers. Mr. Shahani was anxious that the provincial execution should depend for its supplies only on the Provincial Legislature and not on contributions from the Central Government.

Mr. Joshi considered that the provincialisation of Income Tax, which also included a tax on agricultural incomes, would compensate the Provinces for the loss of excise. He was in favour, however, of leaving to the Central Government the tax on the incomes of Corporations.

Mr. Gyan Chand (Patna) continued the debate. He emphasised the disparity between the conditions of the different Provinces, and pointed out that Bihar and Orissa with a population of 34 millions had been spending 47 lakhs on Education while Bombay with a population of 19 millions had been spending 183 lakhs and argued for a general levelling up, special assignments being made by the Government of India. He wanted the Indian States to surrender Customs and Transit duties to the Central Government, they, in their turn, being relieved of the burden of the tributes and the maintenance of troops.

Mr. V. L. D'Souza (Mysore) called attention to the financial

position of the Indian States. He emphasised the need for the remission of the tributes.

### LOCAL FINANCE

The Conference then proceeded to discuss the Papers relating to Local Finance. The Papers were:—

1. Panchayet Finance by Mr. V. L. D'Souza.
2. Some Aspects of Local Finance in British India by Mr. B. G. Bhatnagar.
3. Development Finance by Mr. H. R. Batheja.
4. Prohibition and Prohibition Finance in the Bombay Presidency by Mr. S. K. Muranjan.

Mr. Thompson (Allahabad) in introducing Mr. Bhatnagar's Paper in the absence of the writer said that the statistics showed that Local Bodies had large balances which might have been used instead of resorting to loans. He also believed that considerable capital expenditure was incurred out of current revenue, whereas such expenditure, *e.g.*, that on school buildings, should have been met by borrowing.

Mr. Muranjan (Dharwar) discussed Prohibition in relation to Local Finance. He suggested that the Bombay Corporation should bear a share of the cost of Prohibition, since the textile industry would be materially benefited.

Mr. D'Souza (Mysore) described Mysore legislation in respect of Local Bodies. He argued that Land Revenue should be made a local charge and that communal labour should be organised and harnessed to village reconstruction through the Panchayet. He also pleaded for grants-in-aid.

Mr. Batheja (Patna) summarised his Paper on "Development Finance" and suggested that instead of taxation, people should be required by voluntary agreement to render services.

*5th January, 1929:*

Mr. S. V. Iyer (Dacca) deprecated the Industrial conscription proposed by Mr. Batheja.

Dr. P. J. Thomas (Madras) emphasised the importance of Local Bodies and their functioning, and wanted that they should be given larger funds for carrying out rural reconstruction, in particular a share in the Land Revenue.

Mr. P. S. Lokanathan (Madras) considered Mr. Batheja's distinction between poverty in money and richness in commodities and services misleading, while a certain amount of voluntary services was no doubt desirable, and possible, anything beyond this was out of question.

Mr. D. N. Banerjee (Dacca) deprecated conscription of labour.

Mr. Habibur Rahman (Hyderabad) put several questions to Mr. Batheja to ascertain his points of view and the correctness of his calculations.

Prof. S. Kesava Iyengar (Hyderabad) argued that Indianisation of services and of capital would be a great help in freeing funds for a policy of development.

Mr. T. K. Doraiswamy Iyer (Madras) said that the underlying idea in Mr. Batheja's Paper was commendable. He evidently wanted to break the vicious circle of lack of development and lack of resources. There was the obvious fact that the vast population of the country had low resources in respect of commodities, but vast ones in respect of human material. The Problem was to utilise the latter. This was in itself worth serious consideration, but the methods proposed were not satisfactory.

Dr. D. Pant (Lucknow) pointed out that we were working from the apex downwards. We had to find means for rural reconstruction by allocation of funds or in other ways. Compulsion would destroy the entire scheme of rural development. One course would, however, be reduction of Military expenditure.

Mr. Thompson (Allahabad) argued that certainly the problem would be solved in terms of labour, and village roads in particular could be improved by rendering of services by the village folk, but compulsion was out of question.

After Messrs. Kamdar and Batheja had spoken, the President summarised the discussion as follows:—

Before we close I should like to make a few remarks. I am going to impose upon myself the usual time limit. I must generally say that the discussion which has taken place during the last two days on the problem of finance has covered a very wide field, but I am sure it has been fruitful. The issue before the country today is what is to be done with regard to the division of finances between Provincial and Central Governments and Provincial and Local Governments. Being so vitally important, it is but natural that this Conference should have devoted so much time to its discussion and to finding out a solution. It might be said that, after all this wrangling and heat, we have not arrived at any certain decision. There is nothing to be surprised at in this. Even if a Royal Commission had undertaken the task, it would not have come to a definite or an unanimous conclusion. There would have been minority reports and dissenting minutes. We are expected in these Conferences not to frame out and dry schemes. We have aimed at exploring the whole field and attempted to devote as much of our time and attention to the discussion of every phase of the problem; and from this point of view, we have done our level best to be of service to the Government and to the country at large.

We have tried to consider the static and dynamic points of view. First of all, we have taken things as they are—Provincial Governments as they are; the Central Government as it is, and tried to find out how the sources of these Governments could be distributed, in the first instance with regard to the decision of the Meston Settlement. We have had also to consider the possibilities of the near future. We expect that as a result of the enquiry going on now into the constitution of India, full Provincial autonomy might be granted, and in that case, there is a possibility of a federal constitution being evolved; and therefore we have paid due attention to that phase of the problem. The chief problem before us is thus two-fold: firstly, how would we



redistribute the existing resources; and considering the possibilities of the near future, how should we redistribute Governmental functions and revenues?

In connection with this aspect of possibilities, we have considered also the position of the Indian States *vis-a-vis* British territory. In the course of our discussion, it appears as if certain observations have been made, which, some might consider, should not have been allowed. But I can assure those critics of ours that nothing was farther from the mind of those speakers than to wound the susceptibilities of the Indian States or other interests concerned. I hope I speak the mind of this Conference when I say that. In fact, if such observations had been made, I would have ruled them out of order. We have been here to determine the financial relations between the States and the British-Indian Government. Whatever their existing constitutional position may be, we are here concerned merely to consider how the Indian States may be fitted into a scheme of federal finance that is likely to be put into a scheme of federal finance that is likely to be put into operation in the near future. There are two possibilities for us to consider; if they are sovereign powers, contractual relations may have to be established between them and the rest of India, or they may choose to go into the Indian federation just like the Provinces. What many of the members had in mind was that, after all, the rulers and subjects of Indian States are Indians, and when we want to estimate taxable capacity of the power of consumption, in fact, whenever we take all the economic factors into account, Indian States, subjects, and rulers, and their purchasing power, must equally be taken into account in considering India as a whole. It is from that point of view you were addressed in relation to that subject by some members. If that is correctly understood, I think the remarks have been helpful.

Another important point that has been brought out is this. The Meston Settlement has been found to be utterly unsatisfactory. Consequently that settlement must be unsettled to suit the requirements of the Provinces as well as of Central Government.

Therefore, the question is how to redistribute the resources. A good deal of dispute has arisen as to the method of redistribution. With regard to the necessity, it is admitted. Whether by retransferring or by allocating certain sources of revenue, this object could be achieved, has been the subject of controversy. But I think even here, there is a good deal of unanimity. We are not going to consider the present system as sacrosanct. We are not prepared to think that a clear-cut division is essential as we find in the existing arrangements. There is no risk to provincial autonomy if there is a division, and we shall not abhor all divisions of resources between Central and Provincial Governments and stand out for a clear cut.

There are two or three ways in which this can be done. Mr. Joshi for instance has pointed out an alternative course. It is not for the Conference, however, to say "This is our scheme." Even a Royal Commission cannot be expected to be so definite and exact. We point out alternatives and say "Try to work that out in practice."

Figures and statistics will have to be worked out for a detailed scheme. In India, however, we have got a famine of statistics, and have to make the most of such as we have got. I hope this question of finance will be taken up by the Conference next year again. In the meanwhile there will be reports and schemes put forward for the consideration of the country, and statistics and facts will have to be collected, and to-day we have given the lead in bringing about the more important aspects of the problem, and in that way we have contributed, I hope, to the final solution of the problem.

Many people make light of administrative difficulties. But I do not think that we are not conscious of these difficulties. All we do is to point out the theories and say that this is what is theoretically sound and should be adopted in practice. If that is not practical, keep the ideal before you and try to rise to the ideal as soon as practicable.

It appeared as if there was some provincial patriotism imparted

into the debate, but unless we are prepared like this to understand the view-point of other Provinces, we cannot be clear as to where we are. I am glad of the heat as it has brought also light on this topic.

The last point I wish to make is that we cannot place any particular constitution outside India as our model. We have a number of models before us. We have to take the good points of those models and adjust them in our own necessities and conditions. We do not believe in financial and economic revolutions, and it is by way of adjustment that our goal can be reached and therefore if we can offer a scheme, it might have to be revised, say after five years. But there is nothing wrong in that.

Before I close I want to take this occasion of offering our respectful thanks to His Highness the Maharaja for the splendid and generous hospitality that he has extended to us. I want also to thank Sir Charles Todhunter for the great interest he has taken in the work of this Conference and the help he has given to our Local Secretary. We are similarly thankful to the Vice-Chancellor for the great interest he has taken in our work, which he has shown by his continual presence. In spite of our wranglings, he has kept his head very cool, and we hope he will carry away a good impression. We are very thankful to the University for having allowed us to hold this Conference under its auspices.

We have to thank the Local Committee and particularly the Secretary who has been watched going about from one place to another for looking after our needs. I think he has been travelling in a motor car always, and I am reminded of the deer in Kalidasa's "Sakuntala" which is described as being more in the air than on the ground. Mr. Subba Rao was more on the motor car than on the earth. We must thank him for his strenuous and unselfish work.

Lastly, we must all thank the volunteers. Had it not been for them, the work of this Conference would not have been as successful as it has turned out to be.

# INDIAN ECONOMIC ASSOCIATION

## Twelfth Conference, Mysore, 1929

### MINUTES OF THE ANNUAL GENERAL MEETING

The Twelfth Annual General Meeting of the Indian Economic Association was held in the Durbar Tent at Staff Quarters, Mysore, on Saturday, the 5th of January, 1929, at 12-30 p.m.

#### Present:

1. Mr. V. G. Kale, Poona, President (*in the Chair*).
2. Mr. D. N. Banerjee, Dacca.
3. Mr. T. Ramachandra Rao, Madras.
4. Mr. B. B. Mukherjee, Muzzaffarpur.
5. Mr. Habibur Rahman, Hyderabad (Deccan).
6. Mr. N. S. Narasimha Iyengar, Trivandrum.
7. Mr. P. J. Thomas, Madras.
8. Mr. S. Kesava Iyengar, Hyderabad (Deccan).
9. Mr. T. K. Duraiswamy Aiyar, Madras.
10. Mr. H. Sinha, Calcutta.
11. Mr. P. S. Lokanathan, Madras.
12. Mr. H. R. Batheja, Patna.
13. Mr. D. G. Karve, Poona.
14. Mr. D. Pant, Lucknow.
15. Mr. Gyan Chand, Patna.
16. Mr. S. V. Ayyar, Dacca.
17. Mr. K. H. Kamdar, Baroda.
18. Mr. K. B. Madhava, Mysore.
19. Sir Charles Todhunter, Mysore.
20. Mr. M. R. Bijawargi, Indore.

21. Mr. E. S. Sunda, Madura.
22. Mr. K. C. Ramakrishnan, Madras.
23. Mr. B. Tirumalachar, Mysore.
24. Mr. V. L. D'Souza, Mysore.
25. Mr. S. K. Muranjan, Dharwar.
26. Mr. T. K. Shahani, Bhavnagar.
27. Mr. S. V. Kanungo, Indore.
28. Mr. A. Nell, Kandy, Ceylon.
29. Mr. N. Wickramaratne, Kandy, Ceylon.
30. Mr. James Kellock, Bombay.
31. Mr. L. N. Ghosh, Agra.
32. Mr. N. S. Subba Rao, Mysore.
33. Mr. L. C. Dhariwal, Indore.
34. Mr. A. A. Perera, Kandy, Ceylon.
35. Mr. R. M. Joshi, Bombay.

The Minutes of the last Annual General Meeting at Lucknow were read and confirmed.

The Report of the Hon. Secretary and Treasurer and the audited Statement of Accounts for the year ending 30th September, 1928, were read and approved.

A resolution was adopted appreciating the services of the Hon. Auditor, Mr. Arjun K. S. Aiyar, Incorporated Accountant, Bombay, and re-electing him Hon. Auditor for the year 1929.

An audited Statement of Accounts of the Indian Journal of Economics was placed before the meeting by Mr. C. D. Thompson, on behalf of the Economics Department of the University of Allahabad.

Mr. R. M. Joshi moved and Mr. S. V. Ayyar seconded—

- (1) that the Conference Number should, if possible, be published before the end of January;
- (2) that it should include only those papers which had already been pre-printed in book form;

- (3) that Papers submitted later to the Conference and a summary of discussions on all the Papers should be published in the April Number of the Journal;
- (4) but that in the case of the Memorandum placed before the Conference by Mr. G. Findlay Shirras, only a summary of the same, to be prepared by Mr. Shirras himself, should be published in the April Number.

The proposition was carried *unm con.*

Mr. N. S. Subba Rao was unanimously elected President of the Association for the year 1929 and Mr. R. M. Joshi Hon. Secretary and Treasurer.

The following gentlemen were elected members of the Editorial Board of the Journal on behalf of the Association for the year 1929:—

1. Mr. V. G. Kale, Poona.
2. Mr. Pramatha Nath Banerjee, Calcutta.
3. Mr. T. K. Duraiswamy Aiyar, Madras.

The following gentlemen were elected members of the Executive Committee of the Association for the year 1929:—

1. Mr. P. J. Thomas, Madras.
2. Mr. V. G. Kale, Poona.
3. Mr. K. B. Madhava, Mysore.
4. Mr. T. K. Shahani, Bhavnagar.
5. Mr. Radha Kamal Mukherjee, Lucknow.
6. Mr. Gurumukh Singh, Benares.
7. Mr. H. R. Batheja, Patna.
8. Mr. A. C. Sen Gupta, Nagpur.
9. Mr. P. Basu, Indore.
10. Mr. J. C. Sinha, Dacca.
11. Mr. J. W. Thomas, Lahore.
12. Mr. S. Kesava Iyengar, Hyderabad (Deccan).

The invitation from the University of Allahabad to hold the next Conference there during the Christmas Holidays of 1929-30 was accepted and Prof. C. D. Thompson was elected Hon. Local Secretary for that Conference.

The following subjects were selected for discussion at the Allahabad Conference:—

- (1) Marketing.
- (2) Indian Finance.
- (3) Development of economic thought in the twentieth century (either an individual author or a specific theory to be selected by the writer of a Paper).

It was resolved that—

- (1) Papers should be submitted in typescript form only and should not exceed more than ten pages of the Journal in length;
- (2) that the subjects for discussion at the Allahabad Conference should be intimated to all members of the Association not later than 31st March, 1929;
- (3) that the last date for acceptance of Papers by the Hon. Secretary and Treasurer should be 30th September, 1929;
- (4) that the Hon. Local Secretary should despatch printed copies of such Papers, not later than 15th December, 1929, to those members who intimate to him in time in writing that they will attend the Allahabad Conference;
- (5) that writers of Papers who fail to send them to the Hon. Secretary and Treasurer in time, *i.e.*, so as to reach him before 30th September, 1929, must send 100 printed copies of the same to the Hon. Local Secretary, Allahabad, so as to reach him by 15th December, 1929, at the latest;

(6) that no Papers will in any case be accepted after that date.

(Moved by Mr. R. M. Joshi, seconded by Mr. N. S. Narasimha Iyengar, carried *nem con.*)

Mr. ~~Radhakamal Mukerjee~~ was not present to move the proposals of which he had given formal notice, and Mr. N. S. Narasimha Iyengar withdrew the notice of motion which stood in his name.

A vote of thanks to the Chair brought the meeting to a close.

V. G. KALE,  
*President.*

R. M. JOSHI,  
*Hon. Secretary and Treasurer.*



## INDIAN ECONOMIC ASSOCIATION

### **Report for the year ending 30th September, 1928**

At the beginning of the year there were 125 members on our register. Of these 20 resigned during the year and 20 new members were enrolled so that at the end of the year our strength of membership was maintained.

This year the Association was able to enrol its first life Member in Mr. R. D. Dalal of Bombay.

The Association is grateful to the Reception Committee of the Calcutta Economic Conference for the donation of Rs. 100 kindly made by them towards the funds of the Association in March last.

From the audited Statement of Receipts and Payments, it will appear that the financial position of the Association has appreciably improved during the year under review.

**R. M. JOSHI,**  
*Hon. Secretary and Treasurer.*

The Sydenham College of Commerce  
and Economics, Fort, Bombay,  
*15th December, 1928.*

# INDIAN ECONOMIC ASSOCIATION Receipts and Payments for 1927-28

RECEIPTS.			PAYMENTS.		
	Rs.	A. P.		Rs.	A. P.
Balance from last year ...	482	8 11	Paid to the Department of Economics, the University of Allahabad, for 125 members at Rs. 9 each ...	1,125	0 0
Subscription for 125 members at Rs. 12	1,500	0 0	Expenditure for V. P. Journals re-fused ...	6	14 0
Sale of Reports ...	8	3 0	Postage and Stationery ...	35	5 6
Contribution from the Reception Committee of the Calcutta Conference ...	100	0 0	Printing ...	38	0 0
Subscription for Life-membership from Mr. R. D. Datal ...	200	0 0	Clerical assistance ...	75	0 0
			Commission on Cheques ...	0	12 0
			Miscellaneous ...	1	0 0
				1,281	15 6
			Balance in Bank	998	9 5
			Balance in hand	12	3 0
TOTAL ...	2,290	11 11	TOTAL	2,290	11 11

Examined and found correct.

ARJUN K. S. AIYAR,  
*Incorporated Accountant,  
Hon. Auditor.*

M. R. JOSHI,  
*Hon. Secretary & Treasurer.*

Bombay, 21st November, 1928.

**Profit and Loss Account for the Year ending  
31st May, 1928**

	Rs. a. p.		Rs. a. p.
To Paper ...	553 4 0	By Subscriptions to Vol. VII. ...	291 3 4
„ Printing ...	1,128 12 0	„ Subscriptions to Vol. VIII. ...	2,670 14 0
„ Postage ...	631 9 0	„ Sale of back numbers	407 0 0
„ Stationery and office expenses ..	175 12 0	„ Interest on fixed deposit	35 0 0
„ Salaries ..	801 0 0	„ Subscriptions due ..	48 0 0
„ Miscellaneous expenses	87 8 0	„ Due from Association on account of sub- scriptions...	240 0 0
„ Commission paid ...	12 10 0	„ Due from Association on account of postage	6 14 0
„ Refund to be paid to Association ...	375 0 0		<u>3,698 15 4</u>
„ Depreciation ...	33 8 4		
		Loss carried over to Balance Sheet ...	100 0 0
<b>TOTAL</b> ..	<u>3,798 15 4</u>	<b>TOTAL</b> ...	<u>3,798 15 4</u>

**Balance Sheet as on the 31st May, 1928**

	Rs. a. p.		Rs. a. p.
Net worth ... Rs. 3,687-1-1	...	Fixed deposit ...	2,000 0 0
Less Journals received back from Tarapore-wala worth „ 38-8-0	...	Cash in Bank ..	1,454 11 11
	3,648 9 1	Cash in hand ...	148 7 6
Subscriptions to Vol. IX paid in advance ..	377 0 0	Bhagwati ...	21 0 0
Indian Economic Association ...	128 2 0	Equipment .. Rs. 415-0-0	...
		Less Depreciation „ 35-8-4	881 7 8
		Dues from members of Indian Economic Association ...	48 0 0
	<u>4,153 11 1</u>		<u>4,053 11 1</u>
Less loss brought forward from Profit and Loss Account ...	100 0 0		
<b>TOTAL</b> ...	<u>4,053 11 1</u>	<b>TOTAL</b> ...	<u>4,053 11 1</u>

R. M. SINHA,  
*Accountant.*

S. K. RUDRA,  
*Managing Editor.*

G. D. KARWAL,  
*Treasurer.*

# Indian Journal of Economics

---

---

VOL. IX

APRIL 1929

PART 4

---

---

## INDIAN LABOUR ORGANISATION AND FORCED LABOUR

BY

P. P. PILLAI,

*International Labour Office, New Delhi.*

Wilberforce achieved a great moral victory and a spectacular triumph when he succeeded in rousing the conscience of the civilised world against the institution of slavery. The victory was, however, in no sense complete. An impressive gesture had no doubt been made against so barbarous an institution; but nonetheless, slavery or forms of slavery persisted in different countries. Some of the more backward countries refused to abolish slavery; others, while outwardly conforming, permitted slavery in various disguised forms. The most persistent of all such forms of quasi-slavery is forced labour. It may be defined as all work or service which is exacted under menace of any penalty for its non-performance, and for which the worker does not offer himself voluntarily. The difference between slavery and forced labour is that while, under the former, the victim is openly denied the legal status of being a free agent, under the latter, the law recognises the workers' free status, but nonetheless provides sanctions for compulsion of

work. It will thus be evident, from its very nature, that forced labour cannot exist among politically advanced communities. The problem is one which affects for the most part, though not exclusively, the working conditions of subject peoples who are under the administration of races alien to themselves. Forced labour in more or less diluted forms still exists among the populations of some of the colonies, and in parts of the world which are yet in a backward state of political development. In the accepted terminology of the day, such peoples are grouped under the collective designation of "natives," and their conditions of labour as "native labour."

The contemptuous implications of these labels, as also the unjust incidence of the exactions of forced labour have been keenly resented, not only by the more politically conscious among "native" populations, but also by the awakened conscience of humanity. For a time a sluggish acquiescence in an admittedly unjustifiable system was tolerated; but the policy of *laissez faire* soon gave way to active endeavours for the eradication of the evil. The question of forced labour was brought into the sphere of international consideration for the first time by the Covenant of the League of Nations, in which, though no direct reference is made to the question, the significant declaration is made in Article 22, that "the well-being and development of peoples not yet able to stand by themselves under the strenuous conditions of the modern world" is "a sacred trust of civilisation." The idea receives further amplification in Article 23, which makes it obligatory on members of the League to "endeavour to secure humane conditions of labour for men, women and children, both in their own countries and in all countries to which their commercial and industrial relations extend," and "to undertake to secure just treatment of the native inhabitants of the territories under their control." The principle was thus authoritatively enunciated that subject populations were to be accorded an irreducible minimum of social justice, to make encroachments on which would be a gross violation of a sacred charge. The same spirit animated the

Mandates given by the League of Nations. Both the "B" and "C" types of mandates contain an article on forced labour. The formula employed in the "B" type runs as follows:—"The mandatory shall prohibit all forms of forced or compulsory labour, except for essential public works and services, and then only in return for adequate remuneration." Another clause runs:—"The mandatory shall protect the natives from abuse and measures of fraud and force by the careful supervision of labour contracts and the recruiting of labour." The Temporary Slavery Commission of the League of Nations came to much the same conclusion, and on the termination of its labours, the Commission, through its Chairman, submitted to the Council of the League suggestions to the effect that measures should be taken for the prohibition, even in non-mandated territories, of "forced or compulsory labour, except for essential public works and services," and to ensure that proper precautions are taken by the authorities concerned in the recruiting of labour.

The Slavery Convention which was adopted by the League of Nations Assembly on the 25th September, 1926, was even more definite in its conclusions regarding forced labour. Article 5 of the Convention runs as follows:—"The High Contracting Parties recognise that recourse to compulsory or forced labour may have grave consequences, and undertake, each in respect of the territories placed under its sovereignty, . . . . to prevent compulsory or forced labour from developing into conditions analogous to slavery. It is agreed that (1) subject to the transitional regulations laid down in paragraph 2 below, compulsory or forced labour may only be exacted for public purposes; (2) In territories in which forced labour for other than public purposes still survives, the High Contracting Parties shall endeavour progressively and as soon as possible to put an end to the practice. So long as forced labour exists, this labour shall invariably be of an exceptional character, shall always receive adequate remuneration, and shall not involve the removal of labourers from their usual place of residence; (3) In all cases the

recourse to forced labour shall rest with the competent central authorities of the territory concerned." A Resolution of the Assembly to the effect that "as a general rule, it (forced labour) should not be resorted to, unless it is impossible to obtain voluntary labour, and that it should always receive adequate remuneration" placed further restrictions on forced labour. Though these steps went some way to mitigate the evils of this system, it was still felt that total eradication should be the ideal aimed at, and that, for preparing the ground, ensuring simultaneity of action and uniform advances, further measures should be taken. Accordingly, the Council of the League at its 43rd session on the 6th December, 1926, on the motion of Sir Austen Chamberlain, empowered the Secretary-General of the League to communicate to the Governing Body of the I.L.O., a copy of the Slavery Convention and "to inform it of the importance which the Assembly and the Council attach to the work undertaken by the I.L.O. with a view to studying the best means for preventing forced labour from developing into conditions analogous to slavery." The I.L.O. thereupon embarked on the preparation of a report on forced labour, and in May 1926 set up a Committee of Experts, including among other distinguished persons Sir Selwyn Fremantle, to address itself to the task. The Report on "Forced Labour," recently issued by the I.L.O., is largely the result of the Committee's labours; and further, it was on the Committee's recommendation that the question of forced labour was placed upon the agenda of the 1929 session of the International Labour Conference.

The texts of the mandates and the International Slavery Convention represent the high watermark of international legislation controlling forced labour. It has been seen that even these two documents, while they register considerable advances on the hitherto unregulated exploitation of the labour of "native" populations do not go to sufficient lengths for the absolute abolition of the evil. Besides the countries regulated by the mandates and the countries which have subscribed to the Slavery Convention, there yet remain vast territories in which the writ of the mandates

and the Slavery Convention do not run, and where there are no precise legal enactments for even qualified control and supervision of forced labour. It is clear that, before a satisfactory international agreement on forced labour can be arrived at, these countries have to be brought into line with at least the minimum common advance made on the various issues raised by forced labour. Then again, there are certain fundamental differences between the texts of the mandates as relating to forced labour and the Slavery Convention of 1926, which require harmonising. Thus the mandates are peremptory on the point that no forced labour is permissible except for "*essential public works and services*." The Slavery Convention gives more latitude, and as a "*transitional provision*," permits forced labour for other than public purposes, namely for private employers, provided that progressive effort is made to put an end to it. Attention may here be drawn to the phraseology employed in the two cases: the Mandates restrict forced labour to "*essential public works and services*," while the Slavery Convention contents itself with the more general term "*public purposes*." It is felt that the less exact phraseology of the Convention may lead to certain abuses of forced labour even under permitted categories, a possibility which is precluded by the less ambiguous and more severe wording of the text of the Mandates.

So much with regard to the existing stipulations for the purposes for which forced labour may be exacted; but the circumstances under which forced labour may be resorted to as defined by the Mandates and the Slavery Convention are left still more vague. While the Slavery Convention contains nothing on the point, the Mandates make a perfunctory attempt at definition, by the tackling on of the solitary qualifying adjective "*essential*" to "*public works*." The point does not require stressing that such vague attempts at definition must lead to unconscionable discrepancies between the intent of legislation and the methods and effects of its application. The exhaustive comparative study of the conditions of forced labour in the various countries of the



world made by the I.L.O., and the Grey Report on Forced Labour which is the result of it, make it clear that there is considerable divergence of practice with regard to the purposes and conditions under which forced labour is resorted to in different countries, as also with regard to the rates of remuneration and the authority responsible for sanctioning resort to it. The nature, scope and intent of national legislation on these points as obtain at present in various countries differ more than they agree: they traverse the whole gamut of subtle gradations from slavery to voluntary contracts. National legislation and practice have in many cases gone farther at present than international law in respect of the regulation of the conditions under which a labourer may be forced to work and the safeguards which should surround him at his task. But there remain countries at the other end of the scale of political advancement, in which next to nothing has been done for the protection of the poor unfortunates liable to exactions of forced labour. The I.L.O., by placing the question of forced labour on the agenda of the twelfth conference with a view to the adoption of an international convention on the question, has taken a constructive step of great value and efficacy for the creation of definite international standards for the regulation of the problem.

The Committee of Experts appointed by the I.L.O. laid it clearly down as its considered verdict that "in the opinion of this Committee all forced labour should cease at the earliest possible moment, and the Committee therefore recommends that it should be the aim of all Administrations to hasten the time when forced labour of any nature shall cease to be imposed." Expert opinion is thus unequivocal on the need for complete cessation of forced labour, but makes concessions to expediency in recognising the impossibility of stopping the evil all of a sudden, and therefore contends itself with a strong plea for hastening the time when forced labour shall be completely abolished. The Draft Questionnaire prepared by the I.L.O. has been framed with a frank recognition of the limitations of the situation, and seems to indicate

that the I.L.O. is also preparing for a gradual, but more accelerated pace of international action on the question. Thus the very first question on the Draft Questionnaire is cautiously worded in the following manner: "Do you consider that the International Labour Conference should adopt a Draft Convention the object of which is to *limit and regulate* the use of forced or compulsory labour?" It is impossible to forecast with any accuracy what will be the actual nature, scope and extent of any Draft Convention that may be adopted at the forthcoming Conference; but it will not be too venturesome to hazard the guess that the action of the Conference will mark considerable advance on the general principle for the control of forced labour as laid down in the existing international documents bearing on the point, and the forced labour clauses of the Mandates and the Slavery Convention of 1926.

A more profitable method of approach to the subject, perhaps, will be a brief study of the conditions that tend to a situation calling for forced labour and of the consensus of enlightened public opinion on such conditions. It is a commonplace of economics that social policy and economic policy are inseparable and develop side by side. The working of the principle is clearly discernible in the existence of forced labour, which is often the result of too rapid development and industrialisation of more or less primitive areas. It is the questionable activities of the concession-hunter and the monopolist, operating in undeveloped areas inhabited by backward populations, that precipitate conditions favourable to the emergence of forced labour. In other words, it is when the demand for labour is allowed to outrun the supply of voluntary labour as the result of unregulated incursions of industrialism, that the necessity arises for recourse to forced labour, and a state of feeling is brought about which tends to overlook humanitarian considerations. The excesses of rubber growers in the Belgian Congo, which at one time excited so much indignation, are outstanding examples of the length to which unbridled industrialism might go to achieve its immediate ends.

It is questionable how far even these ends are subserved by unscrupulous recourse to forced labour. It is affirmed by reliable authorities that the quality of the work performed under compulsion is so much inferior to that rendered by free labour as to be economically disadvantageous. The South African Native Affairs Commission, 1903—1905, state in paragraph 386 of their report, that any measure of compulsion "was to be deprecated not only as unjust, but as economically unsound. The standard of work under any system of compulsion will naturally be inferior to that of voluntary workers: and in addition the fact that compulsory labour is available tends to discount enterprise and progress by diverting attention from the possibilities of labour-saving machinery." At the first blush, it may be difficult to discount so tempting a proposition as "something for nothing" represented by the free recruitment of even indifferent labour on nominal or even no wages. A study of the psychology of "native" populations subject to such exactions will, however, facilitate a clearer perception of the situation. Anthropological writers agree that an important cause of the diminutions of population observable where the system of forced labour is rampant, is that under such circumstances, the compelled workers are robbed of the "will to live," and there can be no doubt that the reactions of the humiliation inherent in compulsion play some part in this. Mr. Joseph Wauters, the Belgian Minister of Labour, expressed himself thus as early as 1924 on the conditions in the Congo: "Everyone is struck by the sparsity of the population throughout the Lower and the Middle Congo. Every one states that the evil is of long-standing, that it is the result of the old slave trade, more recently of alcohol, but above all of portorage in the time of Leopold, of rubber-hunting and of the ravages caused by railway construction." Who can deny in the face of such convincing testimony that the initial quick returns of forced labour are absolutely deceptive, and that in the long run the hands of the clock of economic progress are put back by decades by premature and unregulated attempts at development, absolutely disproportionate to the labour resources of the territory concerned?

It is therefore reasonable to assume that, in any international action that may be taken for the abolition of forced labour, adequate consideration will be given to prevent overhasty development of primitive areas without regard to the labour possibilities of the area. But even with the utmost care in this direction, a residuum of forced labour may be inevitable at least for the present. But here again, it is reasonable to assume, that in all cases of future recourse to forced labour, steps will be taken to ensure (1) that the work to be done or the service to be rendered is in the direct interest of the community called upon to do the work or the service; (2) that the work or service is of actual imminent necessity; (3) that it has been found impossible to obtain voluntary labour for the work by the offer of the rates of wages ruling in the area concerned for similar work or service and (4) that the work or service under consideration will not lay upon the present population concerned too heavy a burden, having regard to the labour available and its capacity to undertake the work.

Before closing, it remains to be seen, how far the problem of forced labour concerns India. Fortunately, the inquiry conducted by the I.L.O. reveals that the evil has not assumed any serious proportions in British India, though it is not exactly unknown. In Bihar and Orissa, for instance, compulsory work is exacted by the Government in certain aboriginal areas in connection with the upkeep of public roads and minor public buildings in the vicinity of the village community from which the labour is levied. Again in parts of the Santal Parganas and districts of Singhbhum, the Government, instead of imposing local taxation, require village communities but little advanced from the primitive stage to maintain their own share of the public roads running through their settlements. Forced labour for private purposes is however strictly forbidden in India, with the exception of the labour dues which are exacted in many parts of India, under ancient custom, by landholders from tenants and agricultural labourers. In most, if not in all, of such cases, the labour obligation of the tenants carry with it a feeble measure of corresponding rights, and hence the asperi-

ties of the system may be said to be mitigated by a show of equity. Section 374 of the Indian Penal Code provides that any person who unlawfully compels a person to labour against the will of that person may be punished with imprisonment with or without hard labour for a period not exceeding one year or with a fine, or with both. The situation in Indian States, however, is not so clear. From time to time, one comes across hair-raising accounts of the *begar* system or forced labour as practised in some of the more backward Indian States, but in the absence of a proper inquiry and definite information, it is difficult to assess these newspaper accounts at their proper value, and to sift the grains of truth from the exaggerations of the free-lance journalist. That the evil, in some measure or other, still persists in some at least of the Indian States seems to be clear from a resolution passed at the first session of the Rajputana States' Peoples' Conference held at Ajmere on the 23rd and 24th August, 1928. This resolution asserts that the system of compulsory labour prevails in some of the Indian States, particularly in Rajputana, and calls upon the authorities to abolish it without delay. Is it too much to be hoped that the challenge implicit in the resolution will be courageously accepted by the States, if any, to which it applies, and that, if the charges prove to be justified, speedy measures will be taken to put an end to the system?

## BUSINESS FORECASTING

BY

K. B. MADHAVA,

*Mysore University, Mysore.*

To the mathematical economist the subject of marketing must have an unusual fascination since demand curves or demand equations form one-half and perhaps the more subtle and elusive half, of economic theory. Our supply curves are more or less standardised because nearly everything is known today of costs by the "harm that was done by Ricardo's habit of laying disproportionate stress on the side of cost of production" (Marshall, *Principles*, p. 84), and our growing information of both industrial physiology and industrial psychology has helped us to obtain that knowledge with precision. On the other hand, "the theory of demand" says Marshall "is yet in its infancy," and although he himself has contributed certain leading conceptions, it is true that as Professor Mitchell says, "with Dr. Marshall's formulation of the problem it was impossible to get quantitative results," because among other things, he proceeded on the assumption that the shape of the demand curve is known. It was Professor Moore on the contrary that had to derive in his *Economic Cycles*, his curves of demand and to obtain by mathematical processes equations expressing the relations between the demands for, and the prices of, certain crops—corn, hay, oats and potato—and measuring the elasticity of demand for each crop. A working measure of elasticity is in some manner available, though not precisely, when in those highly complex exchanges of the world, futures and deferred deliveries are freely indulged in; for, as Prof. J. G. Smith in his "*Organised Produce Markets*" says, such transactions are

only possible on a large scale where competition is keen and when demand is extensive and fairly inelastic. And accordingly these advanced markets have found it necessary to organise survey operations on extensive prognostic methods. One of these operations includes the determination and interpretation of prices, with a view to forecast. "In each of the field of business activities—in production, in commerce, and in finance,"—says Dr. J. H. Henderson "forecasts must be made and prosperity largely depends on the ability shown."

Obviously scientific forecasting is desirable. Briefly speaking it means "making forecasts on the basis of all relevant data and with a knowledge of the underlying tendencies of economic life instead of trusting to haphazard methods and incomplete information." Detailed studies have revealed the existence of certain related movements among the several factors that enter into business and to that end careful examination is made of the ebb and flow not only of production but of commercial and financial activities as well. Among the best known forecasting services are those in the United States, and the Harvard Economic Service, the Brookmire Economic Service, the Babson's Statistical Organisation compile up to date information on general business conditions and construct business "barometers" by means of which they make their forecasts to their subscribers, among whom are thousands of businessmen, firms and corporations. In England besides the London and Cambridge Economic Service, the Federation of British Industries makes a detailed survey of business conditions and publishes a business barometer. "Similar developments have taken place in certain countries of Continental Europe" we read in the Economics Educator (p. 742) "particularly in Germany, Sweden, France, Italy and Austria." While the general course of business activity is to a large extent studied by these organisations, scientific forecasting has also been attempted in the more difficult field of special industries as well, and notable investigations are those by the American Telephone and Telegraph Company, American Radiator Company, the General Motors

Company and the Eastmann Kodak Company in America, by the British Electrical and Allied Manufacturers' Association and Messrs. Rowntree and Company in Great Britain, and those by individual researchers like Sir J. Stamp (J.R.S.S., Vol. 81, 1918), Dr. E. C. Snow (J.R.S.S., Vol. 86, 1923 and Vol. 88, 1926), etc., among others.

Although several theories of forecasting have been advocated, it is however now well-known that various types of business activity show similar cyclical movements, but instead of being all simultaneous they follow each other in some well-known succession. This sequence theory has generally been well verified, particularly in the forecasts of the Harvard Economic Service, although the time lag between the various movements of financial, commercial and productive activities vary both in duration and in intensity. The action and reaction theory, that to every action there is an equal reaction, is more in analogy with the law of mechanics, and the Babson's Statistical Organisation which places the greatest reliance on this theory has several accurate forecasts to its credit. But in actual practice the different forecasting agencies, while each advocating special importance to some given methods, do not limit themselves to any one method alone, as it is well recognised that several factors of business and political life never experienced in the past suddenly rise to importance and affect the rhythm of economic life. The making of these estimates obviously demands capacity for sound and shrewd judgment and the necessity to allow for new factors and tendencies renders forecasting far from being automatic.

Nevertheless certain factors—at least four well-defined different groups of factors—are recognised as affecting business activity. The existence of a general trend of development over a long period, and that of a recurrent seasonal influence in stimulating or stifling business activity according to the season of the year are two pretty well-known factors, and both popular judgment and statistician's art have devised methods to adjust or forecast changes due to each of these factors. These are complicat-



ed to a certain extent also by the changing power of money to purchase, and the equally changing will to buy, but it is no exaggeration to say that both these aspects of marketing can be, and are fully and properly allowed for by technical methods. From the forecasting point of view the factor of predominant importance affecting business activity is what is known as the 'trade cycle.' Although recurrent periods of prosperity, recession, depression and revival are commonly experienced in nearly every trade, yet the differences in the duration and intensity of these phases are so variable that the sceptic's vision is perhaps obscured and it even fails to recognise what is actually existent. Even if all previous studies on the trade cycle may have failed to convince, the monumental work of Dr. Thorp, the *Business Annals*, published under the auspices of the American National Bureau of Economic Research, surveying the facts of 17 countries of the world for periods between 36 to 136 years in each case, has not only clearly and finally established the existence of the trade cycle beyond the shadow of a doubt, but it also gives precise measures of its duration, its intensity and its international relationship. The fourth factor, or the fourth group of factors, is more elusive and comprises mostly of a non-economic kind—"the making of war and peace, diplomatic strains, domestic disorders, changes of political administration and economic policy, droughts, floods, earthquakes, epidemics among men or cattle, and the like"—and their accidental or exceptional character has as yet baffled a precise quantitative estimate.

With this preliminary description I may state that the original object of this paper was to have made along these lines a positive study of some selected crop or industry and communicated the results of my statistical investigations. There were several problems. The rather confused, if cautious, statement extracted below from the Report of the Second Tariff Board (Cotton Textile Industry) was a challenge. We read (pp. 124-25) "there is no more difficult problem in economics than that which is presented by a trade cycle, the causes of which are complicated and obscure in

the extreme. All that can be said is that, while the period for which boom or depression may last varies in duration, both boom and depression invariably come to an end, and to the extent to the depression in the cotton textile industry in India is the outcome of the cyclical character of trade, it is not of a permanent nature. It is obviously impossible to prophesy when the upward movement will begin, but . . . . a commencement of improved conditions should not be long delayed. The recent heavy fall in the price of American cotton has undoubtedly made matters worse . . . . but the return to the pre-war level of cost of the raw material . . . . should mean the approaching end of the period of fall in prices . . . . and the consequent recovery of confidence . . . . the lack of which has proved so detrimental to the industry." There was also the vague cataloguing that the Agricultural Commission had made for the benefit of the future Market Survey Officer. We read (p. 409), "where reliable and continuous statements of prices exist, he should examine the movement of prices over a period of years and the extent to which seasonal fluctuations appear and to which prices differ between one locality and another . . . . He will then turn up the conditions of demand and obtain a general appreciation of what is demanded in terms of both quality and quantity. Here again, an examination of seasonal fluctuations and of local conditions will be required." But the pressing demands upon my time apart, I have felt at various times during this abortive research what has been so correctly expressed (para 347) by the Commissioners themselves that "it will not be possible for the whole investigation to be carried out by one individual" and that if "surveys are to be of value the personnel engaged upon them must be suitably equipped and the plan of investigation be both businesslike and thorough" and so on. Growing recognition is now being made of team work in research and the active engagement of Universities and of learned associations in economic investigations has been urged by more than one Commission. Will it be too much therefore to ask that this Indian Economic Association instead of being merely content with an academic discussion

of papers at this conference, may carry its interest further during the year and plan the production of an authoritative and scientifically accurate report on some crop or industry by a representative body of investigators? Such a programme will perhaps cut fresh sod in the field of endowed statistical inquiry in this country, but more than that it will secure the desirable and mutually useful association of businessmen with academic persons. It is well-known that the London and Cambridge Economic Service is supported very largely by subscriptions from business firms, while also the list of institutions in the United States responsible for and assisting, co-ordinated team work in that country is now very imposing. I venture to hope that this suggestion will be earnestly taken up by the Committee of this Association and some definite scheme announced.

I propose however in the rest of the paper to summarise and further analyse from this point of view the most valuable data for the period of 36 years between 1890—1925 of the Business Annals of India collected by Dr. Thorp for the No. 8 Publication of the National Bureau of Economic Research. In this book of Business Annals, the dominating phases of the business conditions for each selected country are depicted in five leading paragraphs for each year, and although unfortunately no numerical measure is given of any of the features dealt with, the descriptive terms employed are nevertheless very serviceable. The first paragraph is a phrase summarising the conditions of the year as a whole by one or other of the terms 'depression,' 'recession,' 'prosperity,' 'revival,' qualified with the prefix "mild" or unqualified as may be necessary. In the accompanying table where the data are reproduced (at the end of this paper) in abbreviated form so as to present the entire situation at a glance, these general conditions are entered on the extreme left in the order P (to denote an year of "prosperity"), mP (to denote "mild prosperity"), R and mR (for respectively "revival" and "mild revival"), r and mr (for "recession" and "mild recession"), md (to denote "mild depression") and d (to denote that the year was one of

"depression"). The central four conditions revival and recession, mild or otherwise, are grouped together as they all indicate a period of transition, the former two denoting the passage from depression to prosperity and the latter distinguishing the passage in the opposite direction. It will be observed that the 36 years are grouped as follows:—

- 8 of 'prosperity,' 6 of 'mild prosperity';
- 12 of transition (including 5 'r,' 4 'mR' and 3 'R');
- 2 of 'mild depression,' and 8 of 'depression.'

and that considered as progression in point of time two properties become obvious: first, that the progression is continuous, necessarily passing through the transition phase before coming into periods of 'depression' or of 'prosperity'; and secondly, that the progression is in the form of a wave-like figure, with its peaks and pits of varying heights and at differing distances of each other. In mathematical language this may be expressed as indicating that the "general condition of the year" is a continuous function of time, harmonic or periodic, whose positions of maxima and minima alternate with varying periods and amplitudes. Its business significance is however more suggestive: that periods of boom and of depression while they are of varying intensities and of different durations, do not occur haphazardly, but recur in a cyclical order with some sure indication of a forewarning of the direction in which movements for the immediate future will take place. Now it is an important step to discover the existence of the functional relationship between the two variables, thus gained by mathematical analogy, but the determinations of the values of intensity or of the duration is a problem of statistics, tedious as well as difficult, and we cannot of course attempt on any periodogram analysis with these meagre qualitative data. We can only state that the period investigated opens with depression and after some unevenness in its intensity for some years in the beginning, there are definite returns to depression successively in the years 1893, 1897, 1901, 1908, 1915 and 1921. The interval between two consecutive

returns to 'depression' has been defined by Dr. Thorp as the length or duration of a business cycle, and I accordingly recognise 6 cycles of 4, 4, 7, 7 and 6 years durations successively. Subdividing the periods by months, Dr. Thorp recognises 6 cycles of lengths 7, 4, 7, 7, 4 and 2 years, but the average duration of a business cycle by both these estimates is between 5, 2 and 5, 3 years. This moreover, agrees so well with the international pattern discovered by Dr. Thorp on the analysis of 166 cycles of 17 countries, wherein the mean duration works to 5.16 years, with a probable error of 1.62 years. Again by slight grouping, it will be observed that out of the 36 years examined, 12 are years of transition and the rest 24 divide themselves 14 into years of 'prosperity' and 10 into those of 'depression.' This works up to 1.4 years of prosperity to each year of depression, an average which occupies middling position between the extreme values 1.86 (Canada) and 0.45 (Brazil) which the 17 countries considered exhibit. It must be a little surprising to find that a non-European, non-industrial country like ours should have so very well fit in into the international scheme in the matter of business cycles.

The third paragraph in the Annals describes the conditions in the money market in each year, the phrases "money tight" or "money easy" being used in their technical senses, indicating that money is difficult or easy to borrow, i.e., interest rates are high or low. The actual phrases employed to show the different phases of severity or facility may however be grouped into five divisions, which I denote

"tt" as comprising the 9 years marked 'stringent,' 'extremely tight,' 'very tight';

"t" as comprising the 7 years marked 'tight' or 'affected';

"te" as comprising the 6 years marked 'somewhat easy,' 'easing' or 'paper currency introduced';

"e" as comprising the 11 years marked definitely 'easy';

"ee" as comprising the 3 years marked 'very easy' or 'abundant' money.

It will be observed that the variation in the money market is also in a clearly marked cyclical form, the years of extreme tightness "tt" occurring successively in the years 1894, 1898, 1907, 1916 and 1922 giving an average duration of 6.6 years for a monetary cycle, a period somewhat longer than that of the first cycle. Another feature of this variation is the greater steadiness in the repetition of any characteristic with the consequence that there are only 6 years of transition "tc," as against 12 formerly. Correlating the general conditions of the year with the money market it will be observed that amongst the 10 years of 'depression,' money conditions were 'tighter than normal' in 5, 'normal' in 1 and 'easier than normal' in 4 years. Likewise amongst the 14 years of 'prosperity,' money conditions were easier than 'normal' in 8 years, 'Normal' in 4 and 'tighter than normal' in 2 years. This marked association between ease and prosperity would have been much greater but for the indefiniteness in the 12 years of 'transition' wherein during 9 years money conditions were 'tighter than normal'; in 1, 'normal'; and in 2, 'easier than normal.' Perhaps a greater degree of correlation becomes manifest when the general conditions are given a lag of one year, but I believe with scanty data like these, it will be a great finessing. Moreover such a brief summary as 'prosperous,' etc., or 'money easy,' etc., cannot provide more than a general impression of the dominating feature of the year's record, and the mutual relationship between these are only best measured in terms of such things like (Prof. Parsons) "index of trade" (Carl Snyder's) "clearings index of business," or (the American Telephone and Telegraph Company's) "index of general business conditions" on one side and interests rates on the other.

The fourth paragraph of the Annals reports agricultural production and prices, and in relation to India, the crops selected are rice, wheat and cotton. In a way they are representative, but the acreage employed in the cultivation of rice is more than three times any other crop and ten times that of any other country producing rice; besides, rice is harvested usually in April, wheat

usually in March, and cotton about November. Consequently in the Annals "the rice and wheat crops discussed for 1890 for example, were harvested in April and March, 1890 and are commonly known as the crops of 1889-90, while the cotton crop was harvested in November, 1890; being commonly called the crop of 1890-91." We are also told that the statements of crop are given on estimates "which, before 1897-8, were highly unreliable." However, crop estimates are given as 'record,' 'bumper' or 'excellent' which I have combined as "A" or above normal; "good" and 'fair' together being combined as "N" or normal; and the other descriptive terms such as 'small' or 'very small,' 'poor' or 'very poor' and 'failure' as "B" or below normal. Accordingly against each year I have entered the initial letters r, w, c of the three crops in the division A, N and B to which they have been reported to belong. A similar classification is made in regard to the prices of each crop which are called "a" or above normal when reported as 'boom,' 'peak,' 'very high' or 'high'; "n" or normal, when called 'good,' 'fair,' 'risen' or 'improved,' etc.; and "b" or below normal, when described 'low,' 'lower,' 'fall' or 'collapse.'

Now in production also we may notice that the categories A, N and B are arranged for each crop in a cyclical manner, but they are more frequently variable and are also discontinuous; that is to say, the passage from A to B, or *vice versa*, is not necessarily through N. We need not therefore pursue this aspect, but it will be noticed that while for the rice crop, 12 years are A, 11 N and the rest 13 B; for the wheat crop, 14 years are A, 12 N and the rest 10 B; for the cotton crop, 13 years are A, 17 N and the rest 6 B. In other words, larger variations are among cotton crops than among wheat, and among wheat than among rice crops; and from a forecasting point of view, it is more hazardous to prognosticate the nature of a cotton crop. It is however a more interesting problem to determine whether the crops during a year are themselves associated in any manner to enable us to predict the nature of one crop from that of some other; that is to say,

whether there are likenesses among the crops in their yields or unlikenesses among them. Arranged in what are called contingency tables, the three resulting tables are set forth below:

TABLE I

Rice Crop					Cotton Crop		
	A	N	B	Total	A	N	B
A	8	4	2	14	9	5	0
N	3	5	4	12	1	11	0
B	1	2	7	10	3	1	6
Total	12	11	13	36	13	17	6
A	8	3	2	23			
N	4	8	5	17			
B	0	0	6	6			

Judging from the numbers on the dexter diagonal of each of these squares, it appears that there is a greater degree of mutual likeness than otherwise, in the nature of each of two crops; in other words, when it is known that any one crop is plentiful, normal or scarce, the others are also more likely to be of the same order than be different. Calculating the contingency coefficients it appears that the association between cotton and wheat is slightly of a closer nature than that of either rice and cotton or of rice and wheat, both of which are however nearly equal.

With prices also we may construct as above, in the first place three contingency tables as amongst themselves,



TABLE II

Price of Rice					Price of Cotton		
	A	N	B	Total	A	N	B
A	7	3	...	10	3	1	6
N	2	10	2	14	5	6	3
B	2	...	10	12	3	3	6
Total	11	13	12	36	11	10	15
A	5	2	4	11			
N	1	6	3	10			
B	5	5	5	15			

Judging as before from the numbers on the dexter diagonal of each of these squares, it appears that between rice prices and wheat prices alone there is a likeness of movement, whereas between the other two, cotton-wheat, or cotton-rice there is, if anything an association in the contrary direction. It thus happens that cotton has got a market of its own, not very sympathetic in movement with that of the other two crops. In fact among the individual variations of the cotton prices are included 2 years of 'boom,' 1 denoted 'peak prices,' and 3 of 'very high,' prices and 1 in which the cotton market is described as 'collapse' (viz., 1914), when be it noted that the cotton crop is described as a 'bumper' one).

More interesting tables are those connecting crops with prices, and while there may be 9 of them, it is obviously no good trying to discover any association between rice crop and prices of staples other than rice, and likewise with wheat and cotton. Accordingly

I reproduce here only the three tables connecting each crop with its own market price:

	Rice			Wheat			Cotton		
Price	A	N	B	A	N	B	A	N	B
A	4	4	4	2	6	6	4	5	4
N	1	5	5	1	7	4	5	5	7
B	6	4	3	7	1	2	2	...	4
Total	11	13	12	10	14	12	11	10	15

It may usually be expected that there may be some association between abundance or scantiness of crop with either 'below normal' price or 'above normal' price of the same, but unfortunately (except perhaps) in the case of wheat where the positive direction of correlation is between abundance of crop and 'below normal' (price), no marked association is manifest either along the dexter diagonal or along the sinister diagonal. I tried to estimate the correlation by taking an year's lead, i.e., associating the prices in each year with the previous year's crop but I must confess that the contingency coefficient is not much improved thereby. Now another factor that enters into price is the money market condition, and the association between these two variables is represented by the three following contingency tables one relating to each crop:

	Rice			Wheat			Cotton		
Price of crop	a	n	b	a	n	b	A	N	B
<i>Money market.</i>									
Tighter than normal	5	6	5	6	5	5	3	7	6
Normal	1	3	2	2	2	2	2	1	3
Easier than normal	5	4	5	2	7	5	6	2	6
Total	11	13	12	10	14	12	11	10	15

There is again no definite indication that an easy, or for that matter a tight, money market fetches for any of these crops decidedly 'above normal' price. Apparently price is a factor determined by the quality and the demand for the product in outside markets, and the inability to get a decisive result of this part of the investigation is perhaps a negative evidence of the fact that business in a given area depends in the present state of international conditions on the influence brought to bear upon it by international commerce and finance. In fact from general argument even, Prof. Mitchell is constrained to observe ("Business Annals," p. 98 footnote) that "in one way, the development of a 'world market' for the great agricultural staples even increases the hazards of farming. A scanty yield of wheat in Canada, for example, need not cause a compensatory rise of prices." With these limitations it is not possible, nor perhaps is it any good, to generalise with confidence about variable phenomena of social sciences by a mere elaboration of statistical technique on a limited array of cases. Moreover, as Edgeworth has remarked (Quoted by Sir J. Stamp on p. 21 of his Statistical Verification of Social and Economic Theory) "the non-statistical reader has a natural and not altogether unhealthy suspicion of any technical method, any organ on which seemed intended to supersede the use of common sense. It was" he continues "Locke, or some one who wrote, like Locke, against the Aristotelian syllogism, who protested that the Almighty had not dealt so very sparingly with the noblest of his creatures as to make them only bipeds, leaving it to Aristotle to make them rational. A similar prejudice on the part of common sense against correlation and other mathematical instruments" we are warned "is to be apprehended." I may however again conclude with the remark that the international relationship is an additional plea why Indian researchers and businessmen must fall into line with other organisations in such problems of marketing.

**F. 4**

# CO-OPERATION IN THE MADRAS PRESIDENCY

BY

A. J. SAUNDERS,

*American College, Madura.*

The recently published Report of the Committee on Co-operation in Madras, 1927-28, affords one the opportunity of reviewing the progress of the movement of Co-operation in Southern India,

## I

In order to get the proper perspective it is necessary to recall some of the history of the movement before the principle began to be applied to conditions in South India. It is not true that the evil which men do lives after them, the good is buried with them. Robert Owen of England during the first and second decades of the Nineteenth Century was at work expressing an idea and trying to make it current in public opinion; that idea has lived and has clothed itself in a movement which has become world-wide. "Realizing the evils of organizing industry upon a system of unrestricted competition, Owen urged the establishment of a new system based upon the idea of unrestricted co-operation for the common good. Under such a system all would co-operate to produce the necessities of life, and all would benefit by the results of such production. Instead of each striving to obtain the utmost for himself, each would work for the good of all, and all combined to secure the good of each. Thus, by his work and teaching, Robert Owen "set men's minds upon the track of co-operation," and helped to lay the foundations of the Co-operative Movement. and so earned the title "The Father of Co-operation."<sup>1</sup>

<sup>1</sup> Madam's The Story Retold, p. 55.

In 1844, some fourteen years before his death Owen was rejoiced to see the first fruits of this new idea in the founding of the Rochdale Society of Equitable Pioneers, the real starting point of the English co-operative movement. About four years after the starting of the Rochdale Society there was begun in London a new experiment in co-operation by a group of university men who called themselves "The Christian Socialists." F. D. Maurice and Charles Kingsley are the best known men of that group, they were Church of England clergymen, but with them were associated in active propaganda work three lawyers: Hughes, Neale, and Ludlow. The Christian Socialists introduced the idea gained from France, of a "Self-Governing Work Shop." It was a form of co-operation, as Dr. John Matthai explains<sup>2</sup> which was undertaken neither on behalf of the workers as such nor on behalf of the consumers as such, but rather consisted in an endeavour to make the workmen their own capitalists. "They were to own the capital, to control the business and to share the profit. It was a combination of workers controlling the means and results of production. In other words, it was an association of producers as the co-operative store was an association of consumers." That is the distinguishing characteristic of the English system as compared with the European and Indian development as we shall see later. English co-operation was begun to benefit the consumer; it was co-operative buying and selling—as seen in the co-operative store. Later, industrial co-operation came in to enable the workers to become their own capitalists, to own and control the business and to share in the profits. It is along those lines that co-operation has developed in England; when one remembers that England is a highly industrialist country, and that this principle of co-operation began to be applied in the midst of the tremendous industrial expansion of the early part of last century, it is not to be wondered at, in fact it was the most natural thing, that English co-operation should follow along industrial lines.

<sup>2</sup> Matthai's *Agricultural Co-operation in India*, p. xviii.

When we consider the movement in Europe we see a very different situation. The pioneers of co-operation in Europe were Germans—Herr Schulze, Mayor of Delitzsch, and Herr F. W. Raiffeisen, Burgomaster of a group of villages with their centre at Neuwied. Both men were independent workers, and followed new trails; although Schulze of Delitzsch had been influenced by the gospel of thrift which had been preached in the English Friendly Societies, and Raiffeisen was attracted by the public savings-banks. Both were impressed with the fact that to help the small agriculturist cheap credit must be made available, and further that this credit could only be provided, if the small farmers by mutual help organize themselves to secure the necessary capital. In 1850 Schulze organized his first Loan Society at Delitzsch. Two years later he opened his second one in the neighbouring village of Eilenburg, and also made the first society—a self-supporting institution with share capital. In 1845 Raiffeisen founded a Loan Society for the support of poor farmers. In 1862 he organized another loan society at Anhausen, in which the borrowing farmers were themselves the members. Neither Schulze-Delitzsch nor Raiffeisen had Government sanction to establish credit banks, but they each saw that this form of making available cheaper credit was the best way to help the poor agriculturists of their section of the country. Their problem was rural; they sought to relieve the indebtedness of the agriculturists, and accordingly they organized agricultural co-operative societies for the purpose of supplying cheaper credit to members.

In 1856 Schulze-Delitzsch published a book explaining the scope and object of his work. It was in 1859 that he organized the first congress of banks which resulted in the establishment of the General Union of German Industrial Co-operative Societies; Schulze-Delitzsch was the director of this organization up to the time of his death in 1883. In 1867 he obtained from Prussia the first co-operative law which was made an Imperial Law in 1889, when limited liabilities was permitted to all forms of co-operative society. Raiffeisen took some time to work out his plan of rural

credits. He contemplated at first a kind of dual system, and as explained in the first edition of his *LOAN SOCIETIES*, published in 1866, in which he used his Anhausen experiment as the model. Subsequently, he enlarged and improved this model and it became known as the "Raiffeisen Bank." In 1877 a general union was established which finally took the name of The General Union of Rural Co-operative Societies, and which spread its operations to all parts of Germany.<sup>3</sup>

It will thus be seen that the English system follows the lines of industrial co-operation, while that mostly followed in Europe was organizing of credit societies for the benefit of agricultural communities. We shall now see how these two systems have contributed to and helped in the application of the principle of co-operation to Indian conditions.

## II

At least 70 per cent of India's vast population are attached directly or indirectly to the land, so that the ever present economic problems of the country are rural, and have to do with rural indebtedness, the place and power of the sowcar or money-lender, and the need for credit. The Famine Commission of 1880 referring to these chronic conditions said: "We learn from evidence collected from all parts of India that about one-third of the land-owning class are deeply and inextricably in debt, and that about an equal portion are in debt, though not beyond the power of recovering themselves." Things were even worse as reported by the Famine Commission in 1901: "In this evidence before us the Chief Secretary of the Bombay Government said that 28 per cent of the land in Broach had passed into the possession of the money-lending classes, and from a report of the Collector of Ahmedabad, it appears that in his district, expropriation of the landowners has also made considerable way. Taking all these statements into account and comparing them with the evidence we have received, we think it probable that at least one-fourth of the cultivators in

<sup>3</sup> Bhatnagar's Co-operative Organisation in British India, pp. 25, 26.



the Bombay Presidency have lost possession of their lands, that less than one-fifth are free from debt and the remainder are in debt to a greater or less extent."

These reports showed the condition to be so bad that something had to be attempted to relieve the ryots. Sir William Wedderburn's scheme for providing capital to agricultural classes on reasonable terms having fallen through the Madras Government took up the matter, and began to explore the possibility of the co-operative movement to meet the needs of the Indian situation. Accordingly, in 1892 Sir Frederick Nicholson (then Mr. Nicholson) was placed on special duty to study the theory and practice of agricultural banks in Europe, and to suggest ways and means whereby a similar movement might be introduced in India. Mr. Nicholson issued a valuable and exhaustive report on the systems which he found prevalent in Europe; the action taken on that report by the Government of Madras marks the beginning of the co-operative movement in South India. Nicholson said: "Find Raiffeisen and the problem of Co-operation is solved." Nicholson saw that what South India needed was an adaptation of the German system of agricultural societies to make possible cheaper credit, and so it is along those lines that the co-operative movement has developed in the Madras Presidency. In 1904 there was passed into law The Co-operative Credit Societies' Act, and immediately the movement began to bear fruit, as the following table will reveal:

Year	No. of Societies	No. of Members	Working Capital
1906-7	843	90,844	Rs. 23,71,683
1907-8	1,357	149,160	" 44,14,086
1908-9	1,963	180,388	" 82,32,225
1909-10	3,428	224,397	" 1,24,68,312
1910-11	5,321	305,058	" 2,03,05,500
1911-12	8,177	403,318	" 2,35,74,162

After the revision of the Act in 1912 there was another period of rapid growth, for in 1914 the number of societies had increased to 14,881, the number of members to 6,95,998, and the working

capital to Rs. 7,45,31,725. By this time Government considered that the system should be thoroughly reviewed; accordingly, the MacLagan Committee was constituted in October, 1914, with terms of reference as follows:—

“The primary duty of the Committee will be to examine whether the movement, especially in its higher stages and in its financial aspect, is progressing on sound lines and to suggest any measures of improvement which seem to be required. For this purpose the enquiry will be directed primarily to an examination of such matters as the constitution and working of Central and Provincial Banks, the financial connection between the various parts of the co-operative organisation, the audit, inspection and management of all classes of societies, the utilization of the reserve and the manner in which the reserve funds should be exhibited in the annual accounts. At the same time the Government of India do not desire rigidly to limit the scope of the enquiry, and the Committee may, at its discretion, consider and make recommendations regarding any important aspect of the co-operative movement.”

The Committee published their report in 1915; the activity of the co-operative movement in India at the present time may be said to rest upon the Act of 1912, as interpreted by the MacLagan Committee.<sup>4</sup> In spite of the period of the war and the reconstruction after the war the co-operative movement has made steady progress, as will be seen in the following table:

Year	No. of Societies	No. of Members	Central Banks	Working Capital. (Rs. Lakhs)
1913-14	1,333	100,537	8	123.21
1918-19	3,676	244,297	26	305.21
1923-24	9,785	616,628	33	839.27
1925-26	1,1973	748,783	32	1,132.80
1926-27	1,3357	830,522	32	1,334.34

<sup>4</sup> Bhatnagar's Co-operative Organisation in British India, pp. 37-9.

Of the 13,357 registered societies on June 30, 1927, no less than 11,000 with 583,315 members were agricultural credit societies. The remaining societies consisted of non-credit agricultural societies, such as—for purchase and sale, for leasing lands, for irrigation, for land reclamation, and for cattle insurance; and non-agricultural societies, as for example—credit societies, house-building, for purchase and sale, and for labour contracts. From the nature of these societies it will be readily seen the lines on which the co-operative movement has developed in India, and the following are the objects which have been held before the people:

1. To borrow funds from members or others to be utilized for loans to members for useful purposes;
2. to act as the agent for the joint purchase of the agricultural, domestic, and other requirements of its members, and for the joint sale of their produce;
3. to purchase and own implements, machinery or animals for hire to its members;
4. to disseminate a knowledge of the latest improvements in agriculture, handicrafts, and weaving, and encourage its members to adopt them; and
5. generally to encourage thrift, self-help, and co-operation among the members.<sup>5</sup>

During the past dozen years the Madras Presidency has been applying the principle of co-operation in a number of interesting ways, some of which have been highly successful. There came into existence in 1912 a new kind of central bank, known as the "banking union." The first one to be established was the Madura-Ramnad Central Bank, and it admitted both individuals and societies as shareholders. It had as its function not only the finance, but also the supervision and control of all its affiliated societies. That question of supervision and proper control of

<sup>5</sup> Report of the Committee on Co-operation in Madras, 1927-28, pp. 8. 9.

societies forced itself into prominent notice in 1910, when the number of societies became so large that the Registrar of Co-operative Societies and his staff could not adequately supervise them. The first non-credit society organised in the Presidency was the now famous Madras Triplicane Co-operative Stores, registered in 1905. They have had a wonderful success, and their success has been repeated in other places as well. Other applications of co-operation are to be found in the societies for the depressed, backward, and similar classes; Madras fishermen societies, the reclamation of the Kallars (criminal tribes) in Madara and Tanjore; labour societies; building societies; irrigation and land reclamation societies; weavers' societies; agricultural demonstration and supply societies; and land mortgage banks and supervision unions. Thus it will be seen that the ramifications of co-operation are extensive in the Madras Presidency, and a tremendous amount of really valuable work is being done. Great progress has been made since 1914, when the last Committee of enquiry did their work; it was now thought to be time for another review of the movement, accordingly on September 1st, 1927, the Government of Madras announced their decision to appoint a committee to enquire into the present state of the co-operative movement in the Presidency; their report has recently been published, and it is a carefully prepared document.

### III

The Committee consisted of a carefully selected number of men, Indian and European, official and non-official, who were in close touch with the activities of co-operation in the South under the Presidentship of C. A. H. Townsend, Esq., C.I.E., I.C.S. The following were their terms of reference:—

1. To examine the progress made in the co-operative movement in this Presidency since the Maclagan Committee's report;

2. to enquire into the present position and lines of development of the movement and to make recommendations;
3. to examine the practice and organisation of the financial system and to make recommendations;
4. to make recommendations in regard to propaganda, supervision and control of societies and finance; and
5. to examine the position in regard to co-operative distribution, production and sale, and to make recommendations.

The Committee have this day to say as their general finding on the state of the co-operative enterprise:—

“ We consider that the co-operative movement in the Presidency has done good, especially in the general reduction in the rate of interest charged by ordinary money-lenders on their loans to cultivators. But much remains to be done; the movement has not yet touched, even nominally, the lives of more than ten per cent of the people; in many respects it requires correction, in some a change of system, and in some additional attention.” <sup>6</sup>

The most important part of the Report is that which deals with Problems and Proposals, which I shall refer to briefly. The failure to make a division between agricultural loan into long and short-term loans is in the opinion of the Committee the most unsatisfactory feature of the co-operative movement at the present time. This fault brings in its train the large amount of overdues, which is a very serious defect in the present organisation. Accordingly, the Committee have put forward a proposal to divide agricultural loans into long-term and short-term loans, and they consider this the most important of all their proposals. “ We have found during our tours that the localities in which co-operation is healthiest are those which have laid greatest stress on short-term business. On the other hand, in certain districts where long-term

<sup>6</sup> Report of the Committee on Co-operation in Madras, 1927-28, p. 37.

business preponderates, some of the evidence was to the effect that the ryots were deeper in debt than formerly."

As all workers in this field know the crux of the matter is in frequent inspection and adequate supervision of the individual societies. The Committee say we lay the responsibility for inspection of primary societies on central banks, and for supervision on unions and federations; if this work is carried out well and faithfully it will go a long way towards making for success in the practice of co-operation. It should be remembered that the movement owes its origin to poverty, and to the need felt to afford some relief to poor and helpless people. Co-operation aims at getting people to believe in themselves, and to believe that they can help themselves. In other words, as emphasised by the Rochdale Pioneers: "Co-operation is a faith as well as a practice." In this connection good work has been done in organising societies for the depressed, backward, and similar classes. These people are extremely poor; they have no property which they can pledge. Their only asset is their labour and character, and these form the only basis for their credit. Co-operation in their cases must be employed to stimulate thrift, to increase their earning capacity, and to secure for them a larger margin of income by better marketing. The special problems which they offer centre round organisation, supervision, and finance.

Accordingly, the Committee recommended that the Kallar and Criminal Tribe societies should continue under and other similar ones should be transferred to the Government Labour Department. On the same principle, they consider that the Fisheries Department should be responsible for all fishermen's societies. Depressed class societies should be affiliated, wherever possible, to existing unions of caste societies, as is the rule at present. All such societies should look to the Christian Central Co-operative Bank for supervision and help, for it is practically the Central Bank for depressed class and labour societies throughout the Presidency.

As agriculture is by far the most important industry in the Presidency there is great need to organise agricultural demonstra-

tion and supply societies. Some work has been done, and the results are encouraging as far as they go, but the Committee consider that very much more remains to be done in starting societies for better farming; for the co-operative purchase of manures, ploughs; for the co-operative sale of crops; for the provision of finance to enable the cultivator to withhold his crops from the market at harvest time, so as to secure the advantage of better prices later on, all these and other suggestions offer means of increasing the cultivator's income. The Committee strongly urge the formation of loan and sale societies for the purpose of increasing the wealth of ryots, by enabling them to withhold selling their crops till they can command better prices. Every assistance should be given to this form of co-operation.

Next to farming weaving is the most important industry in the Presidency, but the weavers as a class are woefully ignorant and are sunken in poverty. Here is a wide-open opportunity for the co-operative movement, and yet very little successful work is being done to help this class of people. Their problem is largely one of marketing; at present the supply is in excess of the demand in their particular locality, owing to the introduction of the fly shuttle. Co-operative selling and the opening up of new markets is the way in which their salvation lies. In some centres like Madura building societies are popular, and are being successfully managed; this form of co-operation affords considerable help to the steady income-earner, and enables him to acquire for himself. In the matter of co-operative stores, some are working well, but the condition of many is unsatisfactory. For the village population a joint system of purchase is recommended as having a much greater chance of success. The Committee endorsed heartily the new movement for "rural reconstruction," and think that whereas the co-operative movement in India has done good work along the lines of credit societies, the time has come for a more forward movement along non-credit lines. They also see great need for co-ordinating the various departments in their work for the good of the country. They say:

“ We desire to emphasise an opinion, which is based on the evidence of many witnesses, that not enough is now being done to co-ordinate the work of the ‘ nation building ’ departments, which do not, we consider, at present realise sufficiently what a powerful instrument for the furtherance of their work is available to them in the co-operative movement. We therefore suggest that Government consider the advisability of directing district officers of the Co-operative, Agricultural, Veterinary, and Industries Departments to have periodical conferences to co-ordinate the activities of their departments, and to submit reports to Government of the progress made therein. The presidents of central banks and federations should be invited, whenever possible, to attend these conferences.”<sup>7</sup>

Fundamental to the success of this movement for self-help in India is confidence in one another which must be built up on education and training. “ Hence the first condition obviously is that every member should have a knowledge of the principles of co-operation, if this co-operation is to be real and not a sham.”<sup>8</sup>

On this point the Committee say:

“ We have been very much impressed by the lack of knowledge of even the commonplaces of co-operation shown, not only by the members of primary societies, but also by office-bearers, and even by the staff employed by the various non-official agencies. We believe that many of the unsatisfactory features in the present condition of the movement are directly attributable to this ignorance. Even the official staff is, we consider, in many respects insufficiently trained for the proper discharge of its duties. Too much importance cannot be attached to the necessity for adequate educa-

<sup>7</sup> Report of the Committee on Co-operation in Madras, p. 59.

<sup>8</sup> Calvert's Law and Principles of Co-operation in India, p. 11.



tion in co-operative principles of all concerned in the movement."

One matter of more than ordinary interest is the question of land mortgage banks, both primary and central; the Committee see in this practice a means of real help to the agriculturists. They say: "We are of the opinion that every effort should be made to form primary mortgage banks, wherever possible, to provide long-term credit for the ryot." "We are of the opinion also that very slow progress will be made unless a central land mortgage bank is formed in Madras to float debentures on mortgages transferred to it by primary land mortgage banks, and to finance the latter out of the proceeds of such debentures." "If our proposals are adopted, we feel sure that large funds of Indian insurance companies will be invested in the debentures of the central land mortgage bank. We understand that these companies suffer from a lack of suitable mortgage investments, which form a large portion of the investments of insurance companies in England. We consider that Government should take all possible steps to assist in this direction."

A good deal of attention was paid to the question of reserve funds and fluid resources. The Co-operative Societies Act make no reference to the maintenance of fluid resources; that is, to the necessity of societies holding a certain proportion of their assets in a liquid form to meet the claims made from time to time by depositors. The conclusion at which the Committee arrived by a majority, but not unanimously on this matter "is that the existing arrangements with regard to fluid resources are sound, and that a change in them is not called for. We however recommend that, in order to make the existing arrangements absolutely safe, steps be taken to ensure that the continuance of these facilities is made obligatory on the Imperial Bank by some statutory provision, contractual guarantee, or other suitable method." "We feel very strongly that the holding of appreciable tangible liquid assets by the central banks is very necessary as a protection to the agriculturist."

What is needed in the Madras Presidency is an educational campaign putting forth the claims and advertising the advantages of co-operation. In this connection the Committee have made a novel and valuable suggestion, which ought to be tried: "We suggest that if funds permit, a small fleet of demonstration motor vans should be organised, which should tour the Presidency in charge of an officer with special propagandist abilities, and give ocular demonstration to the ryots of the practical value of co-operation. In certain other provinces a demonstration train is being used for the purpose. But we consider motor vans would be more useful in this Presidency. We understand that the Agricultural Department has a similar project under consideration, and we recommend collaboration with that department in the matter."

---

#### SELECTED BIBLIOGRAPHY

1. Law and Principles of Co-operation in India. H. Calvert. 1917.
2. Agricultural Co-operation in India. John Matthai. 1925.
3. Co-operative Organisation in British India. B. G. Bhatnagar. 1927.
4. Mr. Nicholson's Report on Co-operative Systems in Europe. 1897—99.
5. Indian Co-operative Societies Acts. 1904 and 1912.
6. MacLagan Committee's Report, 1915.
7. Townsend Committee's Report, 1928.

# LAND RIGHTS IN BENGAL

BY

I. C. GHOSH

During the debate on the Bengal Tenancy Amendment Bill of 1928, the Honourable Member in charge of the Bill (Sir P. C. Mitter) said: 'Rightly or wrongly, from 1793 onwards the Zamindars have been the proprietors of the soil.' And again: 'To-day, what is the legal position of the Zamindar and the Raiyat? In 1793 the Zamindar was made the proprietor of the soil.' Anybody who reads the discussions on the Amendment Bill cannot but be surprised at the conflicting opinions expressed on this important and fundamental matter. It is desirable that the confusion of thought should be removed and we should have clear ideas about land rights in Bengal.

In English law, there cannot be any absolute property in land, in the sense in which it applies to other things. There can only be an ownership of an estate in the land; i.e., one can only enjoy the incidents of some definite interest in land. But the term 'proprietor' has long been used in Indian Tenancy Laws, and whatever may be the legal implications of the term, for practical purposes, we may safely speak of 'proprietary interest in land,' so far as Bengal is concerned, without giving rise to much confusion of thought.

In this connection, three classes stand out in Bengal: the State, 'the Zamindars, independent Talukdars, and other actual proprietors of land,' with whom the permanent settlement was made, and the raiyats. The vast number of intermediary interests between the Zamindar and the Raiyat, that has grown up in Bengal, also stand out as a separate class; but so far as their rela-

tion with the raiyats is concerned they may be treated on the same footing with the Zamindars as the landlord class.

For quite a long time, the question has been discussed whether the State owns the land, and with it the connected question, whether land-revenue is a tax or a rent. Eminent authorities have given their opinion that the State in India, in the early Hindu and Muhammadan days, had no pretensions of being proprietors of the soil, and that its right to the land-revenue depended for its sanction on immemorial custom, which always had been a potent factor in the East. The extravagant claim of the State being the sole owner of the soil is a comparatively later growth and one of the results of the decline of the Mogul rule (see Baden-Powell, *Land-Systems of British India*, Vol. I, Chap. IV, Sec. VI). Recently, the Indian Taxation Enquiry Committee thoroughly reviewed the historical and legal aspects of the question and came to the unanimous conclusion that: "In the case of land under Permanent Settlement, the Government have now no proprietary right, and that as regards Khas Mahal estates and waste lands outside the Permanently Settled areas, they have full proprietorship." (Report of I.T.E. Committee, p. 66.)

One thing is clear. The right of the State to a share in the produce of the land is undisputed; and all land is, in a manner, hypothecated as security for land-revenue. Apart from that, it is now of little practical importance whether the State may technically be called proprietor of land or not. Hence the two main classes whose interests in land are to be considered, are the landlords and the tenants.

The Permanent Settlement of Bengal (Regulation I of 1793), was the beginning of the systematic attempt to put property in land in Bengal, from a basis of custom to a basis of law and contract. It declared that the Zamindars, independent Talukdars and other actual proprietors of land, with or on behalf of whom a settlement had been concluded with the Government, and their heirs and legal successors, will be allowed to hold their estates at the stipulated assessment for ever. The wording of this declara-

tion has been a more fruitful source of confusion and misunderstanding as to the status of the various parties that have an interest in land in Bengal than perhaps anything else.

In issuing instructions for the Permanent Settlement, the Court of Directors had suggested that the settlement should be made with the 'landholders,' 'but at the same time maintaining the rights of all descriptions of persons.' The Act of 1793 certainly put the Zamindars on a definite legal basis as regards property in land. But the rights which the Government possessed, and those possessed by the Zamindars, were admittedly not exhaustive of all interests in land. The fact remains that many of the cultivators had been in possession of the soil from before and they did not owe their position to the Zamindars, who were now declared 'actual proprietors.' They had their rights in land created and recognised by the Common Law and Customs of the country. During the discussions which preceded the enactment of the Permanent Settlement, it was evident that the authorities were fully aware of these rights, and of the necessity of protecting them. But in the Regulations of 1793 no clear and definite laws were enacted defining the rights of the Raiyats and having them adjusted once for all. The Government contented with reserving to itself the right to interfere in future. This omission is certainly to be accounted for by the extreme intricacy and difficulty of the subject and has been candidly expressed by Sir John Shore in his Minute of 8th December, 1789, as follows: 'The most cursory observation shows the situation of things in this country to be singularly confused. The relation of a Zamindar to Government, and Raiyat to a Zamindar, is neither that of a proprietor, nor a vassal, but, a compound of both. The former performs acts of authority, unconnected with proprietary rights, the latter has rights without real property; and the property of the one and rights of the other are, in a great measure, held at discretion; . . . much time will, I fear, elapse before we can establish a system perfectly consistent in all its parts . . . Nor am I ashamed to distrust my own knowledge, since I have frequent proofs that new enquiries lead to

new information.' Perhaps, circumstances of the time justify the diffidence of Sir John Shore, and explain the inaction of Government, but it did not and could not take away the existing rights of the Raiyats. As the late Mr. Justice Ameer Ali says: ' Though the rights and obligations of the Raiyats were not definitely ascertained and recorded before the conclusion of the Permanent Settlement, their rights were not altered or in any way affected by that settlement.' (Bengal Tenancy Act—Introduction, p. 12.) The history of subsequent legislation in Bengal shows that this was recognised and acted up to by Government. In introducing the Tenancy Bill in 1885, the Hon. Mr. Lubert said in this connection: ' . . . . It was said, that at the time of the Permanent Settlement, and as part of the same arrangement, a formal declaration was made, declaring the property in the soil to be vested in the Zamindars. And throughout the Regulation of 1793, which confirmed and gave effect to the Permanent Settlement, the Zamindars are described as " proprietors " and " actual proprietors " of land; and that this declaration and description are inconsistent with the notion of proprietary right in the land being vested in any other class of persons. As to the use of the term " proprietor," no serious argument can be based upon it.

' I have heard of the magic of property. But I have never understood that there was any such magic in the phrase " proprietor " as to wipe out any rights qualifying those of the person to whom the phrase was applied; and it would be specially difficult to show that it had any such effect in the Regulation of 1793. . . . In the next place, the term was freely applied to the Zamindars of Bengal, and other persons of the same class, in Regulations and other official documents of a date anterior to 1793, and therefore could not possibly be taken as indicating, or, to use a technical term, connoting, rights created at that date.'

But the spirit of active legislation in setting the law of landlord and tenant in Bengal on a proper basis had not come on the Government much too soon. In 1793, the only provision made was as regards the grant of *Pattas* by the landlords, and the

expression of pious hopes that the Zamindars would act in the best interests of the tenants. Both the Zamindars and the tenants were unwilling, for their own reasons, to have the Pattas; and what is worse, these were turned into instruments of oppression in a way which the framers of our early tenancy laws could never contemplate.

Soon after the Settlement many Zamindars were unable to discharge their liability to Government, and the latter in its turn became restive about the revenue. The necessity of putting its revenue on a secure basis had first set the Government thinking about settlement and definition of land-rights. The same necessity set it strengthening the hands of the landlords. Promises of safeguarding the rights of the Raiyats were forgotten. Till 1859, the history of tenancy legislation in Bengal is the history of the continuous absorption of the tenant-right by that of landlord. Of these, Regulation VII of 1799 is perhaps the most notorious and the most ruinous as to its effects.

The inevitable reaction came, and Act X of 1859 was passed, which has been well called 'the first modern tenant law in Bengal. From that time onwards a sustained effort was made to improve the Tenancy Law in Bengal, and the great Tenancy Act was passed in 1885, which had been, with slight alterations, the law of landlord and tenant in the province till substantial changes were introduced by the Amendment Act of 1928.

A review of the present legal position of landlord and tenant as regards the most important attributes of proprietorship does not reveal the Zamindars and other landlords as absolute proprietors of the soil. The most important incidence of proprietorship in land is the right to the enjoyment of the economic rent as evolved by competition for land, and this can only be secured by the power of the landlord to enhance the rent and eject the tenant at his will. In all these respects, we find the essential elements of proprietorship lacking in the position of the Bengal landlord. There is nothing like competitive rent in Bengal. Rent has been defined by the Bengal Tenancy Act of 1885 as 'whatever is lawfully pay-

able by the tenant to his landlord, for the use or occupation of land.' And this amount, being controlled by the provisions of the Tenancy Act, is far from being the economic rent as evolved by the process of natural competition. Some Raiyats hold at rents or rates of rent fixed in perpetuity; and the rent of any tenant who has an actual or presumptive possession of his holding since the Permanent Settlement cannot be changed except on the ground of an alteration in the area of the holding. The rent of an occupancy-raiyat can be enhanced only up to 12½ per cent by contract, and by suit in a court only under certain specific conditions fixed by law. As the law stands at present, no tenant can be ejected except in execution of a decree and there can be no ejectment for non-payment of rent.

It is further important that the interest of a Raiyat who holds at a fixed rate of rent is capable of being transferred or bequeathed in the same manner and to the same extent as any other immovable property; and by the recent Amendment of 1928 the interest of an occupancy-raiyat has been made transferable on payment of a fixed landlord's fee.

Thus, we find that the tenants in Bengal—at any rate, the great majority of them, comprising those who hold at fixed rates and those who have occupancy rights—have substantive interest in their holdings, originating in many cases in the customs of the country and not by any act of, or contract with, the landlords, and now recognised and protected by the existing law of Landlord and Tenant in the land. The correct view of land-rights in Bengal, is that the several classes have divided ownership in land; they own separate and distinct interests in it. More than forty years ago Baden-Powell wrote: 'The actual right of the landlord, as it now exists, is an estate in the soil, . . . limited by the rights of tenure-holders and Raiyats, . . . and of course, by the Government's right to its revenue.' (*Land-Systems of British India*, Vol. I, p. 523.) This still remains the position to-day. Every holding in Bengal is of the nature of a firm of which the actual cultivator is the active and managing partner.



He gives the landlord—not the economic rent—but, what is his due, as a share in the profits of the transaction. And this is strictly regulated by law and the circumstances of each case.

# EXPORT DUTIES IN THE INDIAN EMPIRE

BY

E. H. SOLOMAN,

*University College, Rangoon.*

From the accounts for the year 1926-27, it would appear that the revenue collected from export duties within the Indian Empire less refund and drawbacks amounted to Rs. 5,83,96,920. This was a little more than 12 per cent of the aggregate revenue of the Central Government including in the latter only the annual contribution obtained from the railways, instead of the net receipts or gross earnings minus working expenses. From the subjoined statement the share contributed by different commodities to the net total of revenue from export duties in 1926-27, will appear clearly.

*Net Revenue from Export Duties derived in 1926-27.<sup>1</sup>*

Article				Amount
				Rs.
I.	Jute (manufactured)	...		2,21,26,307
II.	Jute (raw)	...	...	1,68,35,998
III.	Rice	...	...	1,12,86,151
IV.	Hides and Skins, raw	...		30,61,280
V.	Tea	...	...	50,83,437
VI.	Government Stores	...		3,747
Total Rs.				5,83,96,920

<sup>1</sup> Vide p. 81. Finance and Revenue Accounts of the Government of India, 1926-27.

According to the revised estimates of the year following, while a slightly larger gross revenue was expected from export duties than in the preceding year, this was to be obtained practically entirely from substantial increases under Jute, Rice, and Hides and Skins, as from the year 1927-28, the export duty on Tea was converted into a cess to be utilized by the Indian Tea Association for the development of their interests. The following is a statement of the gross amount of export duty which the Government of India expected to collect from Jute, Rice, Hides and Skins during the financial years 1927-28, and 1928-29, respectively.

*Revenue expected from Export Duties in 1927-28, and 1928-29.<sup>2</sup>*

Article.	Amount (in lacs of rupees)	
	Revised Estimate 1927-28	Budget Estimate 1928-29
I. Jute (raw and manufactured)	435'42	420'45
II. Rice ...	121'69	122'07
III. Hides and Skins	34'46	35'10

While the actual revenue collected from Jute and Hides and Skins in 1927-28 exceeded the amounts anticipated in the above estimates, by Rs. 2,447 lacs and Rs. 2.87 lacs respectively that from the rice duly fell below expectations by Rs. 15'47 lacs, owing to a heavy fall in the Indian exports of rice since the beginning of 1928. As a source of revenue, therefore, export duties on these commodities may be expected to play a part of declining importance in the Government of India's Budget, particularly when it is remembered that the exports of raw and manufactured jute goods were abnormally high during 1927-28. Hence it will be

<sup>2</sup> Vide p. 93 of Budget for 1928-29.

interesting to investigate the nature and origin of the present export duties, with a view to considering how far any or all of them are justifiable in present circumstances.

With the exception of the duty on rice which has continued unchanged since 1867 at three annas a maund, the duties on raw and manufactured jute and hides and skins are of comparatively recent origin. It was during the financial stringency experienced by the Indian Government in the midst of the war, that the export duty on raw and manufactured jute was first levied in 1916. In the following year, continued need for money caused the export duties on jute, to be doubled to the rates at which they now stand.<sup>3</sup>

Unlike the export duty on jute, that on hides and skins originated from a different motive. Before the war, Germany practically monopolized the import of hides from India. During the war however Indian supplies were chiefly directed to Britain, where the tanning industry received a great stimulus, and was naturally anxious to retain and expand if possible their use of Indian hides, after the conclusion of hostilities. In India too the inevitable shortage of imported leather goods during the war led to the development of leather factories in Cawnpore, in Madras, in Calcutta. With a view then to protect both the infant Indian industry and the interests of British tanners, the Government of India in September, 1919, passed a bill levying a duty at 15 per cent on hides and skins exported from India. Of this amount  $\frac{2}{3}$  was to be refunded on hides and skins exported to British dominions. This duty was very unpopular among the hides and skins merchants whose trade also suffered from exceptional depres-

<sup>3</sup> The rates of export duty on jute are as follows :

Raw jute, cutting Rs. 1-4 per bale of 400 lbs.

Raw jute, all other qualities Rs. 4-8 per bale of 400 lbs.

On sacking (cloth, bags, twist, yarn, rope and twine) :—20/- per ton of 2,240 lbs.

On Hessians (and all other manufactures not already specified) 32/- per ton of 2,240 lbs.

sion during 1921-23. Partly owing to this and perhaps also due to the fact that the hoped-for close relations between British importers and Indian exporters of raw hides and skins did not materialize, the duty in 1923 was reduced to a flat rate of 5 per cent on all exports,<sup>4</sup> at which it now remains.

While it would thus appear that all the export duties levied to-day by the Indian Government, exist primarily if not solely for the purpose of yielding revenue, it is permissible to enquire to what extent the choice of commodities taxed conforms to conditions in which economic science justifies the imposition of export duties as a means of raising revenue. Before enquiring however, into the conditions in which export duties are a legitimate source of revenue, it may be admitted that conditions are conceivable in which they are justified as a means of protection to the interests of large bodies of consumers or producers in the State. For instance, there may be a temporary and unforeseen shortage in the supply of some indispensable necessity, such as rice or wheat, normally produced in sufficient quantity to permit a small proportion to be exported. In these conditions, unchecked facilities to the export trade would cause an abnormally high rise in price of the commodity to home consumers, which is the less justifiable if as in India, the average purchasing power of the consumer is very low. In these circumstances, a sufficiently high export duty levied temporarily during the continuance of the conditions outlined above would check exports and cause internal prices to rise less than they otherwise would. In view, however, of the inducements to corruption and evasion which the presence of a high duty creates, it is doubtful whether the same object of checking exports would not be more completely obtained by temporary legislative prohibition of export of the scarce commodity as of wheat in 1920.

Perhaps the most perfect justification of an export duty to protect the interests of consumers was afforded by conditions in the petrol trade in India after the war, and in particular during,—

<sup>4</sup> Vide p. 347 of N. J. Shah's "History of Indian Tariffs."

1921—25.<sup>5</sup> During this period, the petrol produced under monopolistic conditions within the Indian Empire, was sold principally to countries outside India at prices considerably below those charged at Indian ports. Had the Government of India then thought fit to levy an export duty on petrol at a rate slightly less than the difference between the prices charged to Indian and foreign consumers, it would have had the effect of radically reducing foreign exports and compelling the oil companies to market a larger part of their production in India at more reasonable prices. Unfortunately, the Government shows little tendency to legislate on behalf of a large and inert body of consumers generally unvoiced against the selfish interests of strongly organized groups of producers. Government have been more ready to impede the outflow of raw materials from their states by levying export duties in order to create a manufacturing industry within the country. Such action while favourable to the interests of one set of producers is likely to injure those of another group, i.e., the producers of the raw material. Exceptional circumstances are however conceivable, as when the bulk of the raw material produced is exported and the foreign demand for it is inelastic, in which the injury to the producer of raw materials may be reduced to a minimum. Such circumstances probably justified the present export duty of 5 per cent on raw hides and skins. For the demand on Indian hides and skins from Germany and the United States is relatively inelastic, as they supply a need which cannot be easily fulfilled by the heavier hides and skins obtainable from the Argentine, the Cape of Good Hope, and other exporting centres, as is borne out by the figures

<sup>5</sup> The following statistics indicate in millions of gallons and lacs of rupees, the average annual exports of petrol from Rangoon during the four years April, 1921—March, 1925 :—

	Quantity.	Value.	Average price per gallon.
(1) To Foreign Ports ...	19.667	214.96	Rs. 1.1-6
(2) To Indian and other Burmese Ports ...	16.372	231.03	Rs. 1.6-7

both of quantity and value exported during the years 1917—28.<sup>6</sup> From these figures, it would appear that except in the abnormally depressed year 1920-21, the quantity of hides and skins exported since the levy of the 15 per cent duty in 1919 have never fallen below those for the years preceding the levy of the duty, while since the reduction of the duty to 5 per cent in 1923 export have increased almost uniformly both in quantity and value. The present export duty on hides and skins, while not affording very much stimulus to the indigenous tanning industry, seems to be justified from every point of view for revenue-producing purposes.

In selecting commodities for the levy of export duty for the purpose of deriving a substantial revenue, the main consideration is to try, if possible to place the bulk, if not the entire, incidence of the duty upon interests outside the country. This result is apt to be fulfilled the more inelastic is the foreign demand for the commodity and the more elastic the home supply offered to foreigners. The foreign demand for Indian raw jute is very inelastic, not only because no other country produces it at anything like the Indian price, but also because it is not easy to obtain other fibres at equally cheap prices for manufactures in foreign jute mills of bags and cloth required for transporting grain, cotton and other raw produce. Besides, such bags and cloth, forming as they do generally, but a small portion of the total value of the commodities which are packed in them, can suffer a large increase in their price without there being a proportionate reduction in the demand for them. Again, the supply offered to foreign sources is fairly elastic for two reasons. The jute acreage in India can to a very large extent be used for the cultivation of rice, so that while in years of high prices the acreage under jute tends to expand, in years of low prices it tends to contract in favour of a larger sowing of rice. Besides the existence of the demand for

<sup>6</sup> Vide pp. 476-479 of Statistical Abstract for British India (No. 2136) and pp. 176-177 of the Accounts of Sea-borne Trade and Navigation of British India for March, 1928.

raw jute from Indian mills, is a further factor, accentuating the elasticity of the supply for foreign consumers.

There can be little doubt therefore, that the whole of the export duty on raw jute will be borne by foreigners so long as prices of raw jute do not rise to a level such as will make the substitution of other commodities for it a paying proposition.

In regard to the duties on manufactured jute, their rates have been so calculated as to equalize the extra cost of raw material which foreign mills have to incur as compared with Indian mills, as a result of the duty on raw jute. Consequently they serve merely to equalize competition in manufactured jute goods in the world market as between Indian and foreign mills. Considering that the former produce approximately half of the world's output of manufactured jute goods, their position in spite of the duty on jute goods remains strong, and they have only to blame their shortsighted short-time policy for the fact that while exports of raw jute have nearly doubled, those of jute bags and cloth have increased in much smaller proportion, i.e., about 20 per cent and 40 per cent respectively, since 1921-22,<sup>7</sup> the year since the short-time policy was put into effect.

Besides jute and jute manufactures, there are several other Indian exports for which the demand is, if not as inelastic as for jute, somewhat inelastic, while their supply is also fairly elastic. Raw cotton and oil seeds may be cited as examples of such commodities of the former exports while naturally fluctuating from year to year, according to the size of American crops, and the relative prices for Indian and American cotton, have on the whole shown a decidedly upward tendency even as compared with 1919-20, which at that date constituted a record. This tendency is intelligible when one realizes that for Japan, Italy, Germany, Belgium, France and to a lesser extent, the United Kingdom, there is no other source of supply but India for the short-stapled cotton so

<sup>7</sup> Vide pp. 478-490 of Statistical Abstract of British India (No. 2136) and pp. 218-220 of Accounts of Sea-borne Trade and Navigation of British India for March, 1928.



necessary for the type of goods almost all these countries produce. A small export duty of 5 per cent on raw cotton exports would therefore injure the interests of Indian cotton-growers but slightly since in many cases these can grow sugar, wheat, or other grain crops equally suitable for their lands, while it would be of appreciable assistance to the depressed Indian cotton industry. It would also have the added advantage of bringing in a handsome revenue of two crores<sup>8</sup> per annum the bulk of whose incidence would fall on foreigners.

As regards oilseeds, it may be admitted that the demand for certain varieties, especially linseed is relatively elastic owing to the existence of several other sources of alternative supply to India. On the other hand for castor-seed and to a smaller extent for groundnuts which constitute over half the total value of seeds exported, it is much less elastic. Generally speaking, the supply of oilseeds in India fluctuates largely from year to year, thereby indicating the existence of other crops which are substituted for them in years of comparatively low prices. In such circumstances a small duty of  $2\frac{1}{2}$  per cent while doing very little injury to the cultivators of oilseeds would yield a revenue of nearly 50 lakhs a year<sup>9</sup> to which the Government of India might legitimately resort in case of financial stringency.

Indeed such a duty would be more justified on economic grounds than the existing rice duty of 3 annas a maund which persists in the Indian tariff as an anachronism while the conditions which may have justified its levy in the past no longer exist. For, although the duties form but  $3\frac{1}{2}$  per cent to 4 per cent of the total values of different varieties of Indian and Burmese rice, this burden, small as it may seem to the casual observer, falls at pre-

<sup>8</sup> This figure is calculated on the basis of the rather low exports for the year 1927-28, and after allowing for the probable decline in exports consequent on the imposition of the duty—*vide* pp. 476-7 of Statistical Abstract for British India (No. 2126) and pp. 206-7 of Accounts, etc., for March, 1928.

<sup>9</sup> This estimate is based on the figures of export for 1926-27 the lowest on record in post-war years with the exception of the year of acute depression 1920-21.

sent almost entirely on the producer, and threatens with disaster the maintenance of the existing standard of living in large areas of the Indian Empire.

Such a statement might excite incredulity in view of the widespread belief regarding the inelasticity of the world's demand for rice. It is therefore meet that the grounds for this popular belief be carefully examined. It may be freely admitted that rice forms the staple article of diet of vast masses in China, India, the Japanese Empire, Indo-China, and the East-Indies and of smaller populations in Cuba, Africa and elsewhere. Besides there is also a demand for it as a secondary food from Europe and the United States of America. But while the aggregate world's consumption of rice may be estimated at about 100,000,000 tons annually, it does not follow that the world's demand for rice is necessarily inelastic. For, so low is the purchasing power of the bulk of the people in the East, that large numbers reduce their consumption of rice when its price rises, either by cutting down their meagre rations or by resorting to substitutes like millets, pulses, beans, rye and sometimes even wheat when the price of the latter compares favourably with that of rice. Generally speaking the price of rice as indicated by the average values per ton of Indian exports realized since 1919<sup>10</sup> has, until 1928, remained remarkably steady

<sup>10</sup> The following table gives the average value per ton of rice exported from the Indian Empire for during a financial year from 1st April to 31st March :-

Year.	Value per ton in rupee.			
1919-20	..	...	...	... 157
1920-21	..	...	...	... 166
1921-22	...	...	...	... 177
1922-23	...	...	...	... 165
1923-24	...	...	...	... 158
1924-25	...	...	...	... 162
1925-26	...	...	...	... 155
1926-27	...	...	...	... 161
1927-28	...	...	...	... 155
1928-29	...	...	...	... 144
(6 months)				

at a high level notwithstanding the fall in world prices that has occurred. Even the fall in price during the first six months of the current financial year is only 14 per cent as compared with the year 1920-21 when its price conformed more or less closely to the rise in general prices of other important food stuffs and raw materials in the world. The comparative steadiness of the price of rice during the last decade has been due principally to a large falling off in the production of India herself (excluding Burma). For, since 1922-23 the Indian production (not including Burma) has, owing partly to diminished yields per acre, and partly through diminished acreage under rice due probably to the superior profitability of crops like cotton, jute and sugarcane, declined by an average of four million tons per year. And while this has been off-set by the increased production in Burma, Siam, Formosa, Indo-China, Korea, Italy, the United States of America, Egypt, Spain and the Dutch East-Indies especially since 1926,<sup>11</sup> it cannot be doubted that the high price of rice which has been made possible by it has caused a considerable amount of substitution of other food grains for rice among the poverty-stricken masses of the East.

Again, even if it be admitted that the world demand for rice is rather inelastic, it does not follow that the demand for rice from any particular source is equally so. For the mere existence of several alternative sources of supply such as India, Siam, Indo-China and various American and European states each exporting rice in small or large quantities, renders the demand for the product from any one particular source more elastic than the aggregate demand. In the accompanying table an analysis has been made of Indian exports of rice (rice, bran and flour have been omitted as they form a small proportion of the aggregate value of rice products and are taken almost entirely by the United Kingdom, while the insignificant export of paddy is also omitted for somewhat similar reasons) to different destinations or markets during the last five complete financial years. The particular classification of

<sup>11</sup> Vide p. 13 of Estimates of Area and Yield of Principal Crops in India, 1926-27 (No. 2103).

markets adopted here has been based principally on geographical grounds, but it will be found that it also takes account to some extent of the different qualities of Indian rice consumed by various regions of the world. By studying the trend of the demand from these various markets and having regard to the fluctuations in price during this period some idea may be gained of the elasticity of the demand for rice from the Indian Empire.

*Exports of rice (in 1000 tons) from the Indian Empire during 1923-28.*

Destination	1923-24	1924-25	1925-26	1926-27	1927-28	1928-29 <sup>11a</sup>
I America <sup>12</sup> ...	126	152	109	144	128	84
II Europe and Egypt <sup>13</sup> ...	638	811	720	547	605	516
III Africa <sup>14</sup> ...	109	106	121	110	132	86
IV Near East <sup>15</sup> ...	110	73	105	72	106	77
V Ceylon ...	389	403	432	399	461	376
VI East Indies <sup>16</sup> ...	413	472	453	348	365	334
VII Australasia ...	17	26	29	12	20	9
VIII Far East <sup>17</sup> ...	365	313	540	384	296	85
IX Other countries	8	15	42	19	39	85
Total ...	2177	2273	2549	2035	2152	1652
Average price per ton in Rs. ...	159	163	155	162	156	145

11a The figures under the column 1928-29 are mere estimates derived by multiplying the off-take in a particular market in the previous year by a fraction of which the numerator forms the actual amount taken by that market during the first six months of 1928-29, and the denominator is the actual amount taken during the corresponding six months of 1927-28. The total for the column is the sum of these respective estimates for each market, and is not derived directly from the total for 1927-28.

12 America here includes, U.S.A., Cuba, other W. Indies and Chile.

13 Europe and Egypt include U.K., Sweden, Germany, Netherlands, Belgium, Portugal, Austria, Finme and Italy besides Egypt.

14 Africa includes Mauritius and dependencies, S. Africa, Kenya, Zanzibar, Pemba and other East African ports.

15 Near East includes Iraq, Arabia, Bahrein Islands and Persia, Aden and dependencies.

16 East Indies include Malay Peninsula, Strait Settlements, Java and Sumatra.

17 Far East includes Japan, Korea, Formosa and Siam.

Taking first the total exports, it will be observed that the quantities exported tend to increase or decrease in greater proportion than a fall or rise in the average price realized. The year 1924-25 when notwithstanding an increased price a larger amount was exported seems an apparent contradiction of this tendency. As a matter of fact however, the high average price of 1924-25 was due to the world shortage of production in the previous year of nearly 6,000,000 tons in all countries (except China) taken together. This naturally put the price up in all countries, and the Indian rupee price for 1924-25 would have been appreciably higher, but for the stabilizing effect exercised by the rise in exchange during the latter half of 1924. In 1925-26, when world production had recovered partly and Indian prices, already adjusted to the new level of exchange, fell, there was a great increase in exports of rice to the record figure of 2,549,000 tons. The attainment of the figure was partly assisted by a short crop in Siam in 1925, as a result of which Indian exports to the Far East jumped from 313,000 tons to 540,000 tons. This happy state of affairs was entirely reversed in 1926-27, when while crops of the preceding year in India especially Burma, were slightly under normal and India's idea of price remained high in consequence; bumper crops in Siam and Cochin China resulted in these countries making headway at India's expense in Europe, in the Far East, the East Indies, and in fact almost every other market of India.

The year 1926-27 may be taken as marking the beginning of a new epoch in the history of India's rice trade. Beginning with this year and stimulated partly by the remunerative level of rice prices, production of rice increased greatly in Siam, Formosa, Cochin China, Korea, Burma and the East generally (excepting India proper), while in several European countries like Italy, Spain and Poland, and in the United States the same results had ensued. The effect of this increased production in other countries on India's principal markets both to the east and to the west, has been very marked. Demand from her European markets is declining due to the increased local production of the latter, and their

preference for a very highly milled and glazed rice such as is not turned out by the mills of India and Burma. The only way to overcome this preference is by reducing Indian prices to such a level as to make it worth while for European consumers to give up their foolish<sup>18</sup> preference for various 'fancy' rices. This would also render rice cultivation a less profitable occupation in Europe and America. Similarly in India's eastern markets, the increased production combined with the superior geographical position of her rivals Siam and Indo-China, have caused the latter countries to make headway at India's expense. There can be little doubt, therefore, as to the truth of the statement, that any attempt to raise prices for Indian rice is likely to result in a more than proportional falling off in off-take, while it is probable, judging from the figure of quantity exported and average price for 1926-27 and 1927-28, that falling prices may bring a proportional increase in off-take. In other words demand for Indian rice, in present conditions seems fairly elastic. Any imposition such as an export duty, levied in these conditions, is likely to fall more upon producers than upon the foreign consumer, particularly if the supply of the commodity is also fairly inelastic.

In the subjoined table, we find the protection of the total Indian rice export trade, provided by Burma since 1923-24.

*Proportion of quantity and value of rice exports of the  
Indian Empire coming from Burma.*

Year.	Percentage of total quantity exported, coming from Burma.	Percentage of total values exported, coming from Burma.
1923-24	81 %	79 %
1924-25	81 %	78 %
1925-26	89 %	85 %
1926-27	86 %	83 %
1927-28	86 %	82 %
1928-29 (6 months)	87 %	83 %

<sup>18</sup> I have used the epithet "foolish," because the food value of the highly polished and more expensive rice is actually less than that of ordinary milled rice owing to the removal of vitamins and fats from the grain during the polishing process.

This proportion by itself is sufficient to establish Burma's pre-dominant interest in this trade. But when in addition to this we take note of the fact that every year India imports from Burma considerably larger quantities of rice than is exported annually from the Indian Empire excluding Burma it becomes clear that the sole real source of export from the Indian Empire is Burma.<sup>19</sup> It behoves us, therefore, to examine the conditions of supply in that country.

In the year 1926-27, the area that matured under paddy formed 70 per cent of the total matured acreage in the whole of Burma.<sup>20</sup> This itself marked an increase over the preceding year both in the absolute acreage under paddy and that relative to other crops. Since 1926-27, the expansion in acreage figures (though not in net outturn of paddy) has continued until in the third forecast published on the 15th December, 1928, the matured area under paddy in Burma is estimated to be 12,126,000 acres, or 276,000 acres in excess of the revised figures for 1927-28.

In the subjoined statement, a comparison is made of the total matured acreage under paddy, the total outturn of paddy, the quantity of rice and rice products exported and the proportion of the latter to the outturn of paddy in Burma since 1925-26.

	1923-24	1924-25	1925-26	1926-27	1927-28
19 Exports of Burma Rice to India					
(in 1000 tons) ...	414	506	882	587	904
Exports of non-Burma rice from					
India (in 1000 tons) ...	412	423	275	268	282

<sup>20</sup> *Vide* pp. 21 and 39 of Season and Crop Report of Burma for year ending June, 1927.

Year.	Matured paddy acreage in 1000 acres.	Paddy out-turn in 1000 tons.	Rice and rice <sup>21</sup> products exported in 1000 tons.	Proportion of <sup>22</sup> exports to paddy outturn.
1925-26	11,165	6,720	2,903	58½ %
1926-27	11,483	7,422	3,223	58½ %
1927-28	11,850	7,329	...	51 %
1928-29 <sup>23</sup>	12,126	7,334	...	...

From the above statement it becomes clear that, after supplying the needs of the people of Burma, nearly  $\frac{3}{5}$  of the whole paddy crop is available for export. In other words, remembering that paddy cultivation occupies more than 70 per cent of the area sown and matured, over 40 per cent of the total cultivated area of Burma is devoted solely to the production of paddy for export. In view of the comparatively scanty population in Burma; of the limitations on the production of crops other than paddy prescribed by climate; in view of the overwhelming bias in favour of paddy in her present agricultural economy; in view of the large proportion of her agricultural effort directed solely towards export; as is indicated by the fact that rice and rice products form on an average 60 per cent of the total value of Burma's exports, and that these constitute the only method of payment for the numerous articles of import for which Burma's demand is inelastic; it is difficult to imagine Burma appreciably contracting her supplies of paddy as a result of a fall in price. The diminished exports for 1928 form no

<sup>21</sup> The figures for exports refer to the calendar year next after the commencement of the seasonal years against which they are placed. Thus the exports appearing against 1925-26 actually refer to the calendar year 1926.

<sup>22</sup> The proportion of exports to total production of paddy is calculated by multiplying the figures under exports by 100/74 before comparing them with the total production as it is estimated that only 74 per cent of rice and bran, etc., are obtained from a given ton of paddy.

<sup>23</sup> The figures for 1928-29 are as given in the third forecast published on 15th December, 1928.



exception to this statement. For they are the result of inability to obtain sufficient foreign buyers as compared with 1927, in spite of a fall in price of approximately 7 per cent rather than of a deliberate attempt on the part of Burma to withhold supply. That this is so, is attested by the fact that in spite of low prices ruling during April to September 1928, the area sown with paddy during this period is the largest in the history of Burma. This record sowing in spite of a fall in prices emphasizes the peculiarly one-sided character of the present agricultural economy of Burma. For her soil, her climate, the traditions and tastes of her people, the activities of the Agricultural Department of the province, have all favoured the development of paddy cultivation in the past, and make it difficult now, or in a few years, sufficiently to diversify her agricultural system to make it easy for Burma to contract her supplies of paddy for export when prices are unfavourable.

In these circumstances, it is obvious that the present export duty on rice falls almost entirely on the producer. And since Burma is the sole effective exporter of the Indian Empire, exporting herself to India and the rest of the world more than the total exports of the Indian Empire, it falls almost entirely on the producer in Burma. Nor is the burden of the duty restricted merely to its incidence as measured by the following figures:

*Gross revenue collected on exports of rice from Burma.*

---

	1923-24	1924-25	1925-26	1926-27	1927-28
Rupees	95,57,000	98,44,000	1,24,52,000	1,01,15,000	90,45,000

---

Account has also to be taken of the loss in trade due to the existence of the duty which forms  $3\frac{1}{2}$  per cent to  $4\frac{1}{2}$  per cent of the f.o.b. price of rice. Furthermore, the duty by cutting off potential markets compels Burma to market her inelastic supplies in those markets where she possesses advantages of geographical situation or better shipping facilities, at prices less than she might

otherwise have been able to charge. Thus in 1927-28, while price realized for exports of Burma rice fell on the whole, the fall was greater for exports to African, American, Ceylon and Indian ports, than to Europe and markets south and east of Rangoon where keen competition always keep prices cut very fine.

Hence if the total injury caused to producers in Burma be considered, there is little doubt that it will considerably outweigh the revenue obtained by the state and the advantage derived by Indian consumers of Burma rice. The retention of the export duty on rice cannot be justified in these circumstances on any grounds sanctioned by economic theory. Nor is it to be justified either by the plea of financial necessity, in view of the increasing revenues of the Government of India from Custom and Railways, and the possibility, if occasion arose, of deriving additional revenue from export duties on cotton and oilseeds. In spite of this the argument has sometimes been advanced that India should retain an export duty on rice because Siam and Indo-China also levy duties on their exports. To this sort of argument the obvious retort is that India is not bound to follow the example of other countries if thereby her interests are injured. Furthermore it may be pointed out that the rates of duty levied by Siam and French Indo-China approximate to about 60 per cent and 33 per cent<sup>24</sup> respectively of the Indian rate of duty, so that even if these countries chose to follow India in abolishing the duty, the position of the latter would be relatively improved. Nor is it at all certain that even if she wished Siam at any rate, would be able to sacrifice the large proportion of her total revenues derived from the rice export duty.

<sup>24</sup> *Vide* p. 67 of Imperial Institute : Reports on Rice.

# NECESSARIES, COMFORTS AND LUXURIES

BY

J. K. MEHTA,

*University, Allahabad.*

Commodities are usually divided into three groups, "necessaries" "comforts" and "luxuries." In this article I have based the definitions of these terms on the efficiency-yielding power of commodities. The first of these, "necessaries," is again divided into two heads, "necessaries for existence" and "necessaries for efficiency" for the sake of academic interest. But it is generally recognised now that necessities should by themselves suggest not only necessities for existence but also necessities for efficiency, probably because in most of the western countries there exists, practically, no class of people that subsists only on what may be called necessities for existence. Thus, no practical interest now attaches to this group of commodities at least in the more advanced commercial countries of the world. Again, "necessaries for existence" is a less clearly defined class than it would seem at the first thought. For though the discontinuance of many articles of consumption of an ordinary town labourer would seriously affect his life, yet it is hardly imaginable that it would cause death. Moreover, the disappearance of some commodities of consumption may affect a labourer's life in such a degree as to drain him of energy and vitality and manifest signs of gradual decay of physical health; or, in other words, the absence of some commodities may cause a slow and prolonged death. Whether such commodities should, therefore, be classed as necessities for existence is a difficult question. Because, though their absence is responsible for a gradual decay of structure, it is probable that a careful readjustment of diet may again check such an exhaustion and perhaps rebuild the degenerating physique.

\* This brings us to the most important issue—perhaps the greatest of the causes which have thrown this class of necessities into comparative insignificance. The very fact that there exists an almost equally efficient substitute for every commodity of consumption, proves that no single commodity can, as a rule, be regarded as strictly necessary for existence. A poor man's bread, seemingly so essential for life, can be displaced by rice, or rice again may be displaced by some other grain without any appreciable lasting effect on his life—excepting, of course, some extraordinary cases. Neither bread nor rice can strictly be regarded as necessary. Save perhaps the uneconomic commodities like air, and only a slightly economic commodity water, no other single article can be classed under the head “necessaries for existence.” Even water is not strictly necessary as it can be replaced by other drinks. But because no equally cheap drink is available in place of water, there is some practical utility in regarding it as a necessity for existence, though not without a sacrifice of scientific accuracy.

In spite of these objections we may reasonably regard groups of commodities as constituting a class of necessities for existence such that this whole group of commodities cannot be substituted by any one or more commodities without causing a sudden or protracted death. But this would be tantamount, more or less, to saying that eatables together form necessities for existence—a statement which would perhaps make redundant the consideration of comforts and luxuries. Moreover, such a view has no practical importance.

Though we cannot, therefore, draw a line between those necessities which are and those which are not necessary for life or existence yet there is a great utility in classifying commodities under the three heads “necessaries,” “comforts” and “luxuries”—regarding the first as composed of necessities for life as well as those for efficiency. But here the distinction between these three groups is based neither on the consideration of what is, and what is not, necessary for life, nor on the consideration of absolute quantities of efficiency. We may note at

the very start that these three classes are relative classes. The difference between them is one of degree rather than of kind. It is this very essential point which is really brought out by many writers when they say that what is necessary to one is a luxury to another, and more generally, that necessities, comforts and luxuries depend on time, place, the person, and so forth. What changes affect these groups is the point that we shall take up next. In other words, we shall try to determine of what independent variables these groups can be regarded as functions.

Before we take this question in hand it should be our duty to define these three classes, or, in some other way, to distinguish one from the other. But I propose to do that somewhere at the end of our discussion, in the meanwhile, relying upon our rough yet serviceable common knowledge, of what constitutes each class, for an understanding of the circumstances on which they depend. Every student of economics knows what commodities should be called luxuries, what comforts, and what necessities to a particular person at a particular time and place. Now assuming that what he knows is not far from the truth, or scientific accuracy, let us see when a commodity is a necessity, when a comfort, and when a luxury.

A motor car may be regarded as a "necessary" thing to a surgeon of reputation, living in a modern city. But it is a comfort to a well-to-do artist, perhaps, or again, an unattainable luxury to a low paid clerk. This makes one point clear that the class depends on the occupation of the person. Again, to a physician, who is a specialist in a particular branch, a motor car may not be a necessity when in the town the disease which he treats is not prevalent. Certain diseases have certain times during which they occur—some occur periodically—hence to the same person a commodity may be a necessity at one time and a luxury at another time. Again, the same car to the same man may not be a necessary thing in a different place. To a surgeon a car may be useless in a village with narrow roads for all professional visits. In such a case the car may only be a comfort. Next, a

certain kind of food may be a necessity to an invalid, while to a strong healthy man it may be necessary in no sense of the term.

This discussion brings out clearly the fact that a commodity belongs to one class or another according to the occupation of the person and the time, place, and such other phenomena. But since a commodity is in one class or another according to the degree of efficiency which it yields (a statement which will be explained at length later on), we need simply look to those circumstances which affect the efficiency-power, as it were, of a commodity with respect to a person. We, therefore, have to see only the occupation of the person and other circumstances which favour or obstruct the free influence of the commodity on the man.

Since efficiency is the foundation on which we base our criterion to judge the class of a commodity, and since the efficiency is always relative to a particular kind of work and is greater or less according to the facilities for its application, we may say that the only things which affect the class of a commodity are the occupation or work of the person and the time and place through which the commodity imparts efficiency to the user. Here, as everywhere else, by 'time' is meant a complex co-existence of varied phenomena. A change of time signifies so many alterations in the circumstances which have a bearing on the particular question under consideration.

The saying that what is a necessity to a rich man is luxury to a poor man, and, consequently, that the class therefore depends also on the financial condition of a person, lacks a great deal of truth. It lacks at least that degree of accuracy of statement which can be imparted to economic discussions.

A commodity is a necessity to a rich man while a luxury to a poor man only because the nature of work or the occupation of the user is different in each case, and consequently, the direction in which the efficiency flows is different—but not because the one has more wealth than another. Other things being equal, the

difference of wealth makes no difference at all, save when the terms necessities and luxuries are used in the ordinary sense—a luxury signifying what is enjoyed only rarely, and a necessity signifying what has entered regularly and more or less permanently into consumption. It is however true that the nature of work differs with the financial status of the man, but this is hardly a justification for the statement that the class varies with the wealth of the man.

It would be well to remember here, however, that a continuous consumption of a commodity very often fosters the growth of habit. To a rich man an article of luxury, after a continued use over a long period, becomes a sort of necessity in the sense that its discontinuance causes discomfort and thereby affects efficiency. But later discussions about the definitions of the terms “necessaries,” “comforts,” and “luxuries” will show that to the rich man the thing becomes a “comfort” and not a necessity, because its decrease causes a greater harm than the good which results from its increase. Thus, what was formerly a luxury becomes now a comfort out of habit. Hence, we can still adhere to our objection and say that the class of a commodity may change due to a change of habit but not due to the existence of wealth in greater or less degrees.

Of course, when some people say that what is luxury to a poor is a necessity to a rich man, they mean to say that the primary cause of this variation is the difference in the habits or the constitution of the person brought about by inequality of wealth. But it would be better if they state it explicitly in such words. They would also do well to use the word “comfort” instead of “necessity.”

Here it must be noted, however, that to a rich man a commodity is often not a necessity only because his budget of consumption includes other articles which form a serviceable substitute to the commodity in question. This point takes us to the second important consideration. Wheat may not be a necessity to a rich man only because he consumes other articles of food besides, so

that a decrease of wheat consumption or its absolute rejection would not cause a decrease in his efficiency, it might, on the other hand, add a certain amount to it. It is necessary, therefore, to consider other items in the budget of consumption before we decide whether a commodity belongs to one class or the other. For instance, a motor bicycle is a necessity to a doctor or a lawyer only so long as he has no motor car. When both these things are possessed, each becomes a comfort due to the existence of the other, inasmuch as either can be dispensed with without great inconvenience. But more of this hereafter.

Hence let us lay down the following points which may be regarded as affecting the class to which a commodity may belong. With reference to a person a commodity may be said to belong to one class or another according to the nature of work of the person, all the facilities or hindrances to the free flow of the efficiency-power of the commodity, and the absence or presence of other commodities which satisfy the same or more or less similar wants, or, in other words, the extent to which the particular want has already been satisfied.

To make this point clear we may borrow a simile from physics. We may imagine different vessels as representing different occupations; a pipe connecting a vessel to a reservoir of water as the man; dirt or other accumulations in the pipe obstructing the free flow of water as the presence of disturbances to the flow of efficiency-power from the commodity (i.e., absence of broad roads for a surgeon with a car); and the varying amounts of water in the vessels as the varying degrees to which the person's want has been satisfied already or is being satisfied by the consumption of other articles. Now a vessel will receive more or less water according as the pipe connects it with the reservoir or not (showing the difference in occupation); according as there are obstructions in the connecting pipe or not (showing differences in circumstances caused by place or time), and according as the vessel is more or less full of water already (showing how far there is a provision for the satisfaction of the particular want by means of other articles).



A vessel that is half full already can only obtain an addition of half the vessel of water, the rest of the supply flowing over the brim.

Having thus seen how a commodity becomes a necessary, a comfort or a luxury to a person at a particular time and place, let us bear in mind that to the same person a commodity can be, both, a necessary and a luxury at the same time and place. For example, to a lawyer, whose hobby is painting, a car may be regarded as a "necessary" with regard to his work as a lawyer, while it may be regarded as a "comfort" with regard to his activities as a painter. Yet, on the whole, the car to him may be called a "necessary" because he is a lawyer, no matter whether he is something else besides or not. But does it follow therefore, that to a surgeon of wide practice, who also plays the gardener, in his spare time, at his own place, a watering vessel is a necessity? From one point of view it can be regarded as a necessity without involving any sacrifice of scientific accuracy; but common usage of the term, even in economics, suggests that in considering such a question we should concentrate our attention on that calling or occupation of the person on which he or she chiefly depends for a livelihood.

Next we may consider the question whether in the consumption of a commodity a part of it can be called necessary and a part comfort or luxury. For instance, if wheat is a necessity to a man does it follow that the whole amount which he consumes would be a necessity? It seems it may not necessarily be so; for when we think of a commodity we generally think of it in terms of quantity. A certain quantity may be called a necessity to a particular man but a greater quantity may not be so. A man, for instance, who is eating five cakes every morning, may be overeating, so that we can regard the first three cakes, say, as quite necessary, while the next two may be regarded as comfort or luxury.

We shall now pass on to the most important point; we shall attempt to frame, as nearly as possible, a scientific definition of

each of the three classes, necessities, comforts, and luxuries. Hitherto we have assumed that the meanings assigned to these classes by common usage are, from our standpoint, quite serviceable. In most of the books on economics no clear or scientific definitions of these terms are given. It is doubtful if any book gives the definitions of these terms at all. Marshall, somewhere in his writings, explains the term necessities quite correctly and gives a clear definition of it; but, I believe, he does not anywhere attempt such a definition of the other two terms. In the absence of such definitions how shall we judge the validity and correctness of our definitions? The only way, and perhaps a very good one, is to test them in the light of common experience and observations.

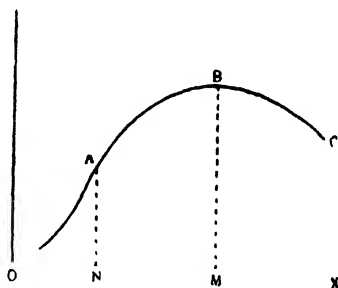
Considering continuous consumption of a commodity we know that every unit consumed affects the efficiency of the consumer; some units may increase the efficiency, and some may decrease it. If the units are very small the changes in the efficiency caused by them are also small. We know, further, that the first few units of a commodity consumed increase the efficiency of the consumer at a progressive rate (if the consumption increases the efficiency at all), while some of the units that follow increase it at a diminishing rate, and lastly, that if the consumption is carried sufficiently far the last few units actually decrease the efficiency of the consumer.

Thus for example, to a particular man milk may give increasing efficiency as the amount consumed increases from, say one chhatak ( $1/16$ th of a seer) to one a day, but after that, as consumption increases to 2 seers a day, the additions to his efficiency may go on diminishing and finally, when more than 2 seers are consumed every day the efficiency of the man may not only cease to increase but may actually diminish on account of the detrimental effects of excessive consumption of milk.

The lines that divide the total amount of consumption into these three classes are thus clearly marked. But it may be remembered that in actual life the determination of the exact dimensions of these classes is very difficult and that these dimensions

differ widely between individuals and between circumstances.

These three classes may now be called necessities, comforts and luxuries, respectively, and may be represented diagrammatically in the following manner.



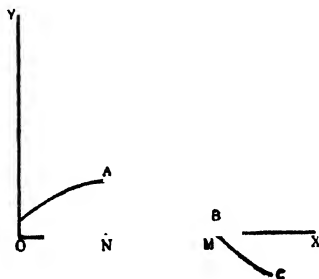
Let the units of consumption be marked on OX and the units of efficiency on OY. Since we know that no unit of consumption can be imagined to have absolutely no effect on the efficiency of the consumer, no portion of the efficiency curve will be a horizontal straight line. Again, we know that the first few units of a commodity give us increase of efficiency at a progressive rate (choosing units of suitable size in each case); the next few units though increasing the efficiency increase it at a regressive rate, while all further units would cause a reduction in the total efficiency. This gives us three distinct stages in the curve. A and B are two turning points on the curve; N and M are the corresponding points on the X-axis. Hence we may say that OM units are "necessaries," NM units are "comforts" and all further units are "luxuries."

Now we may say that in the continuous consumption of a commodity all those units may be classed as necessary each of which by its presence causes a greater increase of efficiency than the one just preceding it. Similarly, we would say that all those units may be classed as comforts each of which by its presence increases the efficiency but not to the extent to which the preceding one does. Luxuries would be those units whose consumption causes a decrease of efficiency, very slight at first perhaps,

but more marked with appreciable increase of consumption. In other words, while consuming a commodity unit by unit we experience more than proportionate increase in efficiency up to a certain point; all this amount would, therefore, be necessary amount. Then continuing the consumption we get less than proportionate increase of efficiency for some time; all these units should, therefore, be called "comforts." Still continuing the consumption further we experience a negative increase of efficiency; this portion may, therefore, be called "luxuries."

In the diagram above, the convex portion OA of the curve represents the total efficiency increasing at a more-than-proportionate rate. The concave portion AB represents the total efficiency increasing at a less-than-proportionate rate; the rest of the curve represents the decreasing total efficiency.

If we were to draw a marginal efficiency curve corresponding to this curve we would get the following curve.



These definitions can now be applied to different commodities instead of different units of the same commodity.

Some readers might object to my regarding luxuries as only those commodities which decrease the efficiency of the consumer. They might argue that some luxuries also increase the efficiency of the man. But such an idea arises only out of a confusion of thought. In the first place, if any commodity increases the consumer's efficiency, however slightly, it should be called a comfort. Luxuries will always diminish the efficiency though in a great many

cases to a small extent only. The confusion and misunderstanding arises out of the practice of regarding the whole amount of consumption as either a necessary, a comfort, or a luxury. An attempt to classify the whole amount under one head is at the bottom of all misunderstanding in regard to the nature of luxuries. For instance, one might say that drinking does not always decrease the efficiency and yet it is a luxury. The answer would be, certainly a moderate dose of drink may not decrease the efficiency, it may increase it, but then this moderate dose is a comfort—all amounts above this dose being luxuries.

Again, an objection may be raised to my definitions on the ground that they cannot be applied to determine whether a car is a necessity to a surgeon or not. My test is to decrease the amount by one unit and observe the decrease in efficiency, and it might be argued that a car cannot be decreased or increased by a unit. One more car would be practically useless if not quite superfluous and one less car would wipe off the whole efficiency. This would suggest that the car is a comfort rather than a necessity according to my definitions. Yet I have regarded it as a necessity for convenience—why? A car is, virtually, a collection of many units. Though we cannot break the car up into similar portions, still we can imagine a car as giving so many units of service. The car serves some urgent needs and some less urgent ones. The satisfaction of the most urgent needs gives more than proportionate increase of efficiency. Hence, we should say that a car for some time during each day is a necessity and for some time a comfort. It goes without saying that at times the same car to the same surgeon would be a luxury, if its use decreases his efficiency.

Thus the definitions given by me hold good even in cases where the particular want in question is satisfied adequately by the consumption of one unit of the commodity. Would it then be correct to call a car a necessity to a surgeon of wide practice? Perhaps not quite correct, but it would be best to state that while to a clerk, say, a car would probably never be a necessity, to a surgeon

or a physician it would be a necessity on many occasions, and, hence, that when a clerk is deprived of a car probably no necessary unit is taken away from his consumption, but when a physician is deprived of a car some necessary units are taken away from his consumption.

## REVIEWS OF BOOKS

**CENTRAL BANKS : A Study of the Constitutions of Banks of Issue, with an Analysis of Representative Charters.** By C. H. Kisch, C. B., and W. A. Elkin. Macmillan & Co., London. 19p. 384+x.

The authors of this timely and standard treatise are Miss W. A. Elkin and Mr. C. H. Kisch. The latter is not unknown in India, being a Financial Secretary in the India Office, and having been the Secretary of the Babington Smith Currency Committee of 1919. They have secured somewhat unusual honours at the hands of Mr. Montagu Norman, Governor of the Bank of England, who in the course of his Foreword has commended the book "not only to bankers and students but to all who are interested in financial reconstruction."

This tribute is fully deserved, for the treatment is both thorough and stimulating. The present reviewer remembers how he had to hunt up old files of the Federal Reserve Bulletin and similar journals for stray references to Central Banks for several weeks together, when he was called upon to open a debate on the Reserve Bank before the Bengal Economic Society, Calcutta. He should therefore be grateful to the authors for their exhaustive appendix (covering nearly two-thirds of the entire book), giving an able summary of the laws, charters, and statutes, relating to 28 important Banks of Issue.

In the introductory chapter, the authors emphasise the importance of Central Banks as currency authorities, which has been receiving increasing attention in post-war years. This task will not be rendered unnecessary even if all the countries adopt the gold standard. The authors give their reasons in the following words :—

"The gold standard is sometimes spoken of as automatic system. The phrase is in the highest degree misleading. Whether there is a gold standard or not, the control of the credit and monetary system involves the solution of many difficult problems of policy and detailed administration." (p. 6)

Indian publicists who are solidly in favour of the gold standard should therefore take a more lively interest in the establishment of the Reserve Bank in order that the gold standard may function properly.

This introductory chapter is followed by six others devoted to a clear exposition of the different functions of a modern Central Bank. Appropriately enough, its relation with the State is given precedence over others. The authors support the

Genoa resolution regarding independence of State control with the following arguments :—

" . . . . if the control . . . . lies directly or indirectly with the Government, it becomes fatally easy for the Government to finance itself . . . . A change in the rate of discount . . . . which benefits some may be unwelcome to others. . . . But if the Government has a controlling influence over the Bank there are obvious ways by which the more powerful interests . . . . can try to enforce their wishes." (p. 22)

All this is very true. But in the opinion of Indian publicists freedom from Government control would in the present politico-economic condition of the country simply mean vesting the control of currency and credit in the hands of a small clique, mostly aliens and their henchmen, who will be oblivious of the true interests of the country. This may be right or this may be wrong. But so long as this view prevails, it is no use expatiating upon the evils of State intervention. Efforts should rather be made to remove this impression from the public mind.

This next two chapters are devoted to capital, reserves, etc., and general administration of Central Banks. Perhaps the most interesting chapters are the two on the note issue and on the place of the Central Bank in the money market. Speaking of England, the authors state :

" The allegation of inelasticity in the working of the traditional British system has been seen to be ill-founded. A certain good will, moreover, attaches to that system with its established record, and this in itself is worth retaining . . . . " (p. 90)

. . . This view has been accepted in the recent enactment.

The opinion of the authors regarding the relation of the Central Bank to commercial banks is equally interesting. It has been stated in the Legislative Assembly that the Reserve Bank " will work as a mill stone round the neck of indigenous banks." The authors, however, emphatically state :

" If a Central Bank is to be in a position to control credit, it must have an unchallengeable voice in deciding the volume of credit to be available from time to time . . . . The very idea of a Central Bank presupposes that the commercial banks will deposit their cash resources, other than till money, with it, and that a system will be established under which the commercial banks will not counter the credit policy of the Central Bank by any action on their part." (p. 101)

The next chapter clearly describes the foreign exchange, loan and discount business of the Central Bank. The last chapter is devoted to co-operation between the different Central Banks of the world. This is not so recent as the authors seem to imagine. It is true that international co-operation in financial matters between Central Banks has been most fruitful and most noticeable in recent



years, but there was such co-operation on different occasions long before the war. To give only one example, at the time of the Baring crisis, the Bank of England obtained £ 3,000,000 in gold as a special loan from the Bank of France and another £5,000,000 in gold from the State Bank of Russia.

Miss Elkin and Mr. Kisch have laid all serious students of finance under a deep debt of gratitude by their handy volume, which will remain for a long time the authoritative text-book on the subject.

H. S.

---

THE RETURN OF LAISSEZ FAIRE by Sir Ernest J. P. Benn. Pp. 221. Price 6s.  
Published by Ernest Benn, Ltd., London.

In his frank foreword to his intensely interesting book Sir Ernest says: 'There is nothing new in this book,' and it is very true. Sir Ernest's arguments have been used for ever so many decades since the close of the 18th century and it is difficult to flog a dead horse to life again. But Sir Ernest is very earnest about a revival. He says: 'The Individualist looks for wisdom to the experience of the past rather than to the inexperience of the future.' The book seems to have been written with a purpose and that at a very psychological moment in the history of British Politics. With the General Election coming up in May, Sir Ernest's plea for Individualism has something more than an academic interest for its readers.

Sir Ernest is nothing if not strikingly dogmatic, and every chapter of his book—and there are 18 of them—is full of life and fight, if not always of sober balancing of the pros and cons of the very important problem he is out to get an answer for.

In his Introduction Sir Ernest says that 'Individualism is a protest against the modern way of looking at things social and political.' It doubts the divine wisdom of the mass, it questions the acceptance of the herd-instinct as a safe guide to political perfection. It denies the doctrine of the infallibility of the committee: All this the unprejudiced reader may accept without in any way being able to assent to the conclusion that the individual can always be trusted to look after his and other people's interests.

Sir Ernest's obiter dictum that Government is a negative force and that it cannot do much that is constructive has only to be mentioned to be dismissed as that of one who refuses to see the other side of the shield.

'A certain amount of Socialism is good for any nation' says Sir Ernest, but how much, he is unable to say. He adds: 'We have a larger proportion of Socialism than is good or convenient.' The reader sometimes wonders whether Sir Ernest is anxious for Individualism or only for a convenient dose of socialism to lighten the admittedly weak case for undiluted Individualism.

In chapter 4, the author describes the present age as 'the age of committees' and has nothing but horror for all its delays and irresponsibility. He has no hope of meeting the demands for consumption so long as the community is afflicted with collectivist restraints on individual liberty. He describes the problem of poverty as one not of money, but of things, and that if we can make the things the problem disappears. It would have been better had the author explained himself a little more in detail. But when he goes on to write that 'Production comes before consumption and leads to it' he is developing what is only part of a truth and not the whole of the economic cycle. The author may ponder a little more if there are not a number of commodities in the world which if produced without restraint may affect adversely both producer and consumer.

In chapter 6, the author defines what he means about Socialism and Capitalism. "Capitalism," he says, "consists in the serving of the desires of others." Can not Socialism also be defined in a similar way? While he accuses the socialist of misrepresenting Capitalism, Sir Ernest falls into the same trap when he says that the ruin plank of the Socialist party is the transfer of riches from one class to another. It is just possible that this may also be a way of serving others. His jibes at the socialist are interesting: Says he, "The socialist tries to make the best of both worlds and tries to have it both ways in the matter of the ethical and material. Justice is hard to find. There is very little of it in human affairs, but certainly no injustice was ever so complete as that which has associated socialism with morality and capitalism with immorality."

Sir Ernest is a great champion of competition. But if he would only study the tendencies of modern business and the possible dangers to the community of the combines, trusts, and cartels, it would require a very strong faith to believe in undiluted competition which if not restrained by authority kills competition itself for private ends.

Writing about the problem of Unemployment Sir Ernest has the following interesting paragraph:

'Unemployment, except in respect of a very small minority of unemployables would disappear to-morrow if we could do two things: first, dismiss the preposterous and degrading notion that the politicians can perform the impossible, and second, secure a general acceptance of the old truth that we live by rendering service to others.' Very well put, but one wonders whether the author is at all anxious to come to grips with his problem.

In chapter 10, the author is very strong in his criticism of the bureaucracy and with his criticism every student of Democratic forms of government would agree. But is not bureaucracy inseparable from any democracy which wants to function on a large scale? Is not another type of bureaucracy inseparable from doing business on a grand scale? Sir Ernest must know! But the remedy lies elsewhere.

The author is on strong ground when in page 205 he declares:

"Private property in present circumstances can only be justified in the public interest. The owners of private property must be regarded as trustees on behalf

of the public. Only on these lines can Individualism hope to make an appeal to thoughtful people." But the case for Socialism is just in the fact that the trustee can so rarely be trusted and that the temptations for abuse of the trust are ever so many. If Sir Ernest would find us a way by which he can ensure that the rich man would act always as a trustee for the poor with sufficient guarantees of good faith there would not be a single socialist left in the world. And there would be no Individualism either in the accepted sense of the term.

The book is very well got up and is priced at six shillings. The book has certainly not been written in a scientific spirit and as such is hardly a book to be placed in the hands of students of Universities. But as a popular presentation of a very difficult subject, Sir Ernest's attempt is interesting indeed, though he has loaded his arguments very much in favour of his own obsessions.

S. V. AYYAR.

---

A BRIEF INTRODUCTION TO PUBLIC FINANCE by Kesari Singh Pancholy, B.A., LL.B., M.A.S.B., F.E.S.I. "For Young Princes" Series, Rewa. 1925. Pp. 106+vii.

This handy volume is based on lectures delivered to H. H. the Maharaja of Rewa in 1922 by the author, and is intended for young princes like him about to enter upon public life. Besides the introductory section, there are four others on public expenditure, public revenues, public debt and the budget. Major Colvin, Adviser to His Highness, contributes a preface, in the course of which he states that the book should prove valuable to students of financial administration generally. But although well-written, it is much too scrappy to be of use to any wide circle of readers. The price of Rs. 5 is very high for a book of this size. The photographic frontispiece is clearly out of place in a text book on public finance. Nor have the proofs been carefully read. To give only one instance, there are mistakes in the names both of authors and of works in the "List of Books Consulted" given at the end. In spite of these defects, the book supplies the want of a concisely written elementary text book on public finance suitable for young princes, who will have to bear a heavier and heavier burden of administration in years to come.

H. S.

---

"EARLY ENGLISH INTERCOURSE WITH BURMA" (1587—1749) by D. G. E. Hall, I.E.S. Rangoon University Publications, No. 1. Longmans. 12s. 6d. Pp. 276.

Prof. Hall succeeds in presenting for the first time an authoritative history on the subject of early English intercourse with Burma prior to 1744. The source from which the material has been drawn, being entirely new, the author has

succeeded in unearthing fresh facts in addition to those, that are usually repeated by Dalrymple in his "Oriental Repertory" or Harvey in his "History of Burma" or Cordier in his monograph entitled "Historique Abrege des Relations de la Grande-Bretagne avec la Birmanie."

Apart from correcting entirely erroneous ideas about this subject, the most prominent of which is Bruce's reference to the Company's trading voyages to Pegu, he has done substantial service in giving quietus to several controversial details, such as the existence of factories in Burma prior to 1647 and the famous Negrais expedition of 1687. Labouring hard amidst the dry and disgusting official factory records in the India Office Archives, he has collected good material from the Fort St. George Diaries, Consultation books, Public despatches to England and from England, and the Madras Public Proceedings for this work. Doubtless his indebtedness to Sir William Foster and Prof. H. Dodwell, the assiduous compiler of the Records of the Madras Government, is very great. He has not failed to refer to other contemporary writers of this period.

Copious and lengthy quotations from the original records enable him to transport the reader from the dreamland of guesswork to that of solid facts and actual conditions.

Though British intercourse with Burma during this period 1687—1744 was "hesitating, fluctuating and mainly unsuccessful" Prof. Hall has demarcated the field into different periods and has devoted detailed attention to each of these periods so that the unavoidable "jumps" from one period of study to another which are so frequent in histories are avoided.

Prior to the founding of the Masulipatam factory the land of peacocks and pagodas had no special attraction for the Company's servants. Musk, wood, and lac—the chief articles of trade—were too bulky to be transported economically. The Portuguese were already well settled. Japan and Siam were the real objectives at that time. Barring private traders who blazed the trail, Burma was never seriously thought of and did not form a part of the commercial activities of the English factors. The situation becomes changed with the founding of the Masulipatam Factory. But trade with Persia absorbed the little capital that it had and no regular intercourse nor even official trading relations could be established. With the failure of de Brito's attempt to found a Spanish-Portuguese Empire, the decaying of the Persian trade, and the rumours of Dutch prosperity arising out of Burmese trade, which whetted the appetite of the English factors, the Surat factory initiated the move and under the management of the new Fort St. George factory trade with Syriam was definitely established. But the Masulipatam factors continued their private trade as before.

Coming to the history of the Syriam Factory during 1647—1657 and the economy campaign leading to its abolition more details are furnished than are at present known to students of this subject. The causes for the slow progress of trading relations are analysed. The Dutch opposition and the precarious financial status to which the English factories in the East were reduced, are considered as the chief causes.

With the advent of Streynsham Master in 1680 things took a different turn. Hearing that the Dutch had retired permanently from Burma he soon inaugurated official intercourse with the Burmese Government and strove to reopen the Syriam factory. His famous Articles of Trade are quoted in *extenso*. Though lac and saltpetre were considered desirable articles of trade the Court of Directors never consented to reopen the factory but expressly approved the carrying on of trade under private traders. It was an era of indirect trade that was ushered in. By controlling the private traders and by judicious lowering of the tariff on precious stones and timber from Burma the Fort St. George factory began to easily attract the whole of the Burmese trade so that by 1700 it became the chief port on the East coast for trade with Burma. Forced to intercede on behalf of Bartholomew Rodrigues it also strove to secure official concessions for shipbuilding at Syriam. Compelled to open the factory at the request of the Burmese Government, Thomas Bowyear was sent as the factor whose main duty was really to control the private traders. This half-hearted arrangement lasted till 1724. In that year the unpaid "Chief of the Affairs" was superseded by the "Resident" whose main duty was to supervise the shipbuilding trade on behalf of the Company.

The expensive nature of the shipbuilding operations, the hostility of the Tailings, and the shifting policy of the Burmese Government forced the Fort St. George factory to give up shipbuilding at Syriam and count on the Parsi Yards at Bombay to satisfy its requirements. The destruction of the Syriam factory by the Tailings in 1748 was soon followed by the official withdrawal of the Resident in 1744.

Throughout this period of the study we find the Burmese Government paying insufficient attention to trade, industry and foreign intercourse, and the general Governmental policy was so intransigent that its resources were not fully developed on any important scale by any of the foreign traders. This stands quite in marked contrast to the enlightened policy followed by the neighbouring state of Siam. Burma's backwardness in these matters was chiefly responsible for her downfall before the Economic Imperialism of Europe in the nineteenth century.

This dull narrative would have been altogether boring to the reader but for the humorous references to certain Burmese customs and manners, the priesthood, the lives of the English factors with their "temporary wives" in Burma, quoted mostly from Hamilton's account, and the habit of giving costly presents. These descriptions lend an air of romance to the narrative and make it an interesting reading altogether. The state of empirical navigation of those times, the securing of finances from the Surat Bankers in 1646, the conditions of trade, the mechanism of payment, the means of payment, the commissions paid to the assayers of bullion, and the brokers called "teregas" are faithfully recorded in Ch. V. State Affairs, commercial matters, social customs and the vacillating manner of the Burmese administrative machine receive due attention and thus make the history graphic and realistic to a great extent. About eight appendices are tacked on throwing further light on the commentary of the text. The printing and get up is eminently satisfactory. We feel disposed to congratulate the Univer-

sity of Rangoon for publishing this valuable work as its first bulletin and hope that similar valuable monographs would be published indicating the real research work done by its scholars.

B. RAMACHANDRA RAU.

---

THE CO-OPERATIVE ORGANIZATION IN BRITISH INDIA by B. G. Bhatnagar, M.A.,  
Lecturer in Indian Economics, University of Allahabad. 1927. Pp. 321.

In this book the author reviews the Indian Co-operative Movement from its inception to the present day, apparently with especial stress upon the constitution and *modus operandi* of various types of society, union, and other central institution.

As was the case in Japan, the Co-operative system was imported from the West and was fostered by a paternal Government in every possible way. In the last thirty years, as the result of a vigorous campaign of propaganda launched by the Government, various kinds of societies have sprung up in every part of the vast empire, especially in the Punjab and Bombay.

Of 54,247 societies existing in 1923-4, credit societies (51,675), modelled both on Raiffeisen and Schulze-Delitzsch systems, by far outnumber other types of society. What particularly strikes us as regards the organization of Indian Credit societies is their strict adherence to the principles of their originators, manifested in the prevalence of unlimited liability and indivisible reserve fund. In Japan societies of limited liability are on the increase even in rural districts and a member always has a claim on the reserve fund in proportion to the amount of his paid-up shares.

Much smaller in number but next in importance to credit societies are marketing and purchasing societies. As is the practice in Japan, these are carried on in connection with credit business.

There are a fairly good number of workers' productive societies, which, though having constantly to fight against the difficulties inherent in the system, are yet holding their own. In Japan for the reasons I pointed out in my book, "The Co-operative Movement in Japan," this type of society is still unrecognized by law and the very few societies that do exist show only a poor result. It is also interesting to note that there exist in India many labour societies, similar to Italian *braccianti*, a form of co-operation entirely non-existent in Japan.

In the field of the Consumers' Co-operative Societies, building societies are making fairly good progress, but the Co-operative store movement still hangs fire in India, whereas in Japan, in addition to some eighty stores open to all, since the end of the Great War, a very active movement has sprung up among the factory workers, though still confined to Tokyo, the birthplace of consumers' co-operation in our country.

Besides these familiar types of society, the co-operative principle is being applied in India to various fields, such as cattle breeding, live-stock insurance, agricultural improvement, the fight against malaria, education, etc., with varying degrees of success.

As to the higher co-operative organizations, there are Banking, Guaranteeing, and Supervising Unions, which are more or less carried on on an un-official and self-help basis. Over them stand the Central Banks (1889 in number), which are, according to the author, the backbone of the Co-operative Movement in India. Their functions include among others supplying funds, balancing of funds, supervising and auditing accounts, marketing and purchasing in common, in the interest of their constituent societies, and above all, acting as the Co-operative Union in the English sense of the term. Above these are seven Provincial Banks functioning as the balancing centres of surplus funds in each province.

As to the proposal of establishing an All-India Co-operative Bank, the author decides that it would be inadvisable on the ground that such a scheme, apart from causing unnecessary expenses to the movement, involves the danger of co-operative money remaining aloof from the general money market, and he urges instead a more harmonious co-ordination among provincial banks, and invites positive assistance to the movement on the part of the Imperial Bank of India. Judging from the experience in Japan of such a central bank, the author's opinion seems to be very sound and practical, but looked at from a strictly co-operative point of view there is still room for discussion on this point.

It is satisfactory to note that according to the author, a movement is on foot to de-officiate the control of Co-operation by the Registrar, who at present exercises a wide power of supervision over the whole of the co-operative activities. But, taking all in all there is no use denying the fact that in common to all the movements inspired from above and not from below, the Indian co-operative movement lacks the vital spark, i.e., the genuine co-operative spirit, which must be the driving force of the whole movement. The author is keenly alive to various defects and shortcomings of the Indian movement, which he points out in his conclusion, and proposes some remedies to give more life to the movement. In the author's opinion, the real cause of failure in India, especially in the Central and United Provinces, lies in the absence of civic conscience in the educated middle class. What are badly needed in India are unselfish officials, "Who live for the people, who think for the people and who work for the people" and yet "can face the sober facts and figures about the working of Co-operation and the peculiar needs of the people they want to help."

There are many more valuable suggestions to Indian co-operators in his "After Thought," which might well be taken *in toto* as a warning and advice to the Japanese Co-operators who are face to face with the same difficulties.

With patriotic zeal and religious fervour the author endeavours throughout his book to impress upon the uninitiated that through Co-operation and Co-operation alone thousands of the submerged classes in his country can be saved from widespread poverty and emancipated from the clutches of the unscrupulous sowcar.

He has done his work well and no doubt this book will greatly contribute towards enlightening the layman on the principles and boon of Co-operation. I feel, however, that he could have attained his end equally well, if he had spared the reader the somewhat too frequent and lengthy description of *modus operandi* of various societies. I must also confess astonishment at his utter disregard of similar movements elsewhere, especially that of Japan, which was born under identical circumstances to those of India and is facing essentially the same problems. Surely, even if the Japanese movement could not furnish him with profitable examples, at least it is productive of some parallels interesting from a purely objective point of view.

DR. KIYOSE OGATA.

---

CURRENCY AND PRICES IN INDIA by C. N. Vakil, M.A., M.Sc. (Econ.), F.R.S.  
and S. K. Muranjan, M.A. D. B. Taraporevala Sons & Co. 1927.  
Pp. 550+xvi.

Prof. Vakil has already established his reputation as a writer on Indian Economics by his "Financial Developments in Modern India." He has now given us a volume full of useful information in collaboration with one of his research students.

In the first part of the book there is a history of Indian currency from 1806 to 1920, a period covered more or less completely by other writers. Even as a compilation, it suffers from the defect of ignoring the latest researches on the subject. To give only one example, the Mansfield Commission is referred to as the first currency inquiry in spite of the recent researches of Prof. J. C. Sinha (see his *Economic Annals of Bengal*, pp. 206-207, where the first currency committee set up by Cornwallis has been briefly described).

Part II is contributed mainly by Mr. Muranjan and covers new ground. This section opens with a description of the index number of Indian prices. The historical account is quite full, having been traced from the India Office memorandum submitted to the Royal Commission on Depression on Trade and Industry (1885-86). Recent index numbers published in the *Labour Gazette*, Bombay and in the *Indian Trade Journal*, Calcutta, have however not been mentioned, although the latter is regularly quoted in the Monthly Bulletins of the League of Nations and some annual publications of the Government of India.

This account of index numbers is followed by a critical examination of prices for a long series of years (from 1860 to 1920) of some important commodities classified under three heads:—(a) foodstuffs, (b) raw materials and (c) manufactures and imports. Unfortunately, the authors often arrive at conclusions not warranted by the facts collected by them with so much labour. There is noticed throughout a bias in favour of protection, which has been advocated with the



help of quite curious arguments in a few cases. About protection to coal, the authors state :

" It deserves to be strengthened a good deal more if it is to become an active force in stimulating our other industries. When it is remembered that our coal production exceeds our consumption, the case for a prohibitive duty becomes stronger still." (pp 539-40)

The truth lies exactly the other way. If the cost of fuel is increased, all industries dependent on this form of power must be prejudicially affected. If the production exceeds consumption, reservation of the home market cannot be an adequate solution, outside markets must be found. Protection has been recommended in the case of other industries as well for insufficient reasons, e.g. for sugar on the ground that " the higher cost of production is mainly to be attributed to the *infancy* of the industry." (*Italics mine.*) One must take one's hat off to this venerable infant and to its enthusiastic guardians.

The second part is concluded with a discussion about the practical problem of determining a representative price index for India, and the theoretical relation between currency and prices. The difficulties have been somewhat exaggerated. The world to-day is a much smaller world than in the days of our forefathers when modern transport facilities were unknown,—almost unknowable. Many commodities have now an international market. The price level in India cannot therefore be altogether a thing apart, as the authors seem to imagine. The same disparity between the prices of sheltered and unsheltered commodities is to be found in England as well, as pointed out by Keynes and other writers. But one must agree with the author's main conclusion that in the pre-war system there was relative redundancy of currency for short periods and consequent inflation of prices,—a fact established by Gokhale and other Indian Economists and admitted in the Hilton Young Commission Report (para 16).

The third and the last section of the book is devoted to a criticism of the three main issues raised by the Hilton Young Commission, viz., (a) the standard (b) the ratio, and (c) the Reserve Bank. The authors approve of the gold bullion standard with two important reservations. One is that the gold reserve should be held in India, and secondly the purchase and sale should be confined to India—opinions which will command the assent of all Indian publicists.

The chapter on the ratio is headed " The Standard Unit of Value." But can there be a unit which is not a standard at the same time? The authors have also confused the issue by bringing in extraneous matters about the " sacredness " of the ratio. For the point is clearly this :—Whether there had been economic adjustment at the eighteen pence level at the time of its establishment, no matter how the adjustment might have been effected. The authors state :

" The fact that these steps [for the deflation of currency] have been taken for a fairly long period, for more than two years, must result in the adjustment of the internal price level with the world price level " (p. 539).

They thus give away their whole case in favour of the sixteen pence ratio. [Not unless wages and interest had also been adjusted. ED.]

The concluding chapter is a plea for the establishment of a central bank, generally on the lines recommended by the Hilton Young Commission, but with no preference either to the Imperial Bank or to its shareholders, as recommended by the Commission. While the need for the Reserve Bank is agreed to on all hands, it is difficult to agree on a constitution in the present political temper of the country. One can only hope that the new Finance Member will explore the field afresh and politicians will not lightly reject the proposals for a lasting financial reform.

To conclude, the authors have collected a mass of information on currency and prices in India at considerable labour, which will prove of value to all serious students of Indian Economics,—even those who may not agree with the authors in some of their conclusions, or those who may find the facts in some portions of the book already known to them.

H. S.

THE BEGINNINGS OF LOCAL TAXATION IN THE MADRAS PRESIDENCY by Venkatarangaiya (Andhra University Series No. 1). Longmans Green and Co. Pp. 107.

This small book of 107 pages is a study in Indian Financial Policy from 1863 onwards with special reference to the Madras Presidency. As mentioned in the preface, an attempt has been made to explore the field of local Government. In the evolution of the future policy of India, local institutions are bound to play a prominent part and therefore the book may be deemed to be a contribution of interest.

The author begins with an investigation into the Finances of local boards and municipalities in the Madras Presidency and goes into details on the beginnings of local finance. The year 1863 is taken as the dividing line between the old order and the new. Prior to that date local taxation was irregular and haphazard. In the decade following the Mutiny the Imperial Finances were put to a severe strain. The situation was further complicated by the over-centralised system of finance which prevailed in the country in those days. The Provincial Governments sent up budgets to the Central Government containing items of growing expenditure which they were under no inclination to reduce as they were not in any way responsible for raising the funds required. Government had therefore to look for relief and imposition on additional lines was decided upon. 'Local Taxation' was therefore distinguished from 'Imperial Taxation,' and was devised as an instrument of relief to the Imperial Finances.

Not only that, local taxation came to be regarded as a remedy for the defects of imperial taxation. It was believed that the distribution of the burden of Imperial

taxes was not equitable, that certain classes of people contributed very little to the public revenues, while certain others were unduly burdened. Local taxation was therefore thought of as a means for bringing about the desired equity.

Further, it appeared that certain taxes could be assessed, collected and administered more economically and successfully as local taxes than as Imperial taxes.

Moreover, local taxation became a positive instrument for effecting local improvements and for training people for self-government.

The principles were sound enough but there was some confusion in their application and the author has in the latter part of the book ably dealt with illustrations to indicate how the primary objects of local taxation have been many a time lost sight of.

As is mentioned in the Introduction by C. R. Reddy, Esq., the book 'may not embody the last word and final wisdom on the subject,' but all the same the attempt of the author is interesting and useful.

KESARI SINGH.

INDIAN ECONOMICS by Profs. G. B. Jathar and S. G. Beri. D. B. Taraporevala, Sons & Co. Vol. I. Pp. 497.

Considering the vastness and complexity of the economic problems which face a student of Economics in this country the volume of literature dealing with the same must be pronounced as scanty. Every addition to this meagre stock of economic literature is welcome provided it is based on a new approach to the subject. The particular books purporting to deal with the economic problems of India from a comprehensive and national standpoint have a special claim upon our attention, as it is in these that a proper understanding and a correct solution of Indian problems may be hopefully traced. It is for this reason that the book under review, though primarily intended for the Honours students reading for the M.A. and B.A. degrees in Economics, is calculated to make a strong appeal to general students of Economics as well. The present book, certain of receiving close attention on account of the relative paucity of such literature, further draws the attention of the reader to itself by the remarkably bold criticism of the existing books on Indian Economics that the authors offer in the course of their preface. The following is a list of the various defects, positive and negative, which, according to them, characterise the existing publications on the subject:—

- (1) Poor quality of critical matter; (2) Inability to analyse a process of thought;
- (3) Absence of proper correlation of the subject with economic theory; (4) Lack of consistency of standpoint; (5) Tendency to shift the discussion from the economic to the political, moral or spiritual plane; (6) Too frequent use of catchwords; (7) Presence of padding complements. By an obvious implication

the authors claim to have avoided all these defects in their book and claim further with enviable self-confidence that they have been inspired by a somewhat higher ambition, that they have approached controversial questions with absolute impartiality and moderation, and that they have tried to remember that there is no higher duty than truth. If then after reading the preface, one felt that the ideal book on the subject of Indian Economics had at last been found, his mental relief cannot be blamed as a too easy optimism.

A perusal of the book, however, brings disillusionment in its train, as in spite of the best efforts of the authors their book is, after all, full of the various defects noted by them in the existing publications. The treatment in the book of such important subjects as the scope of Indian Economics, Ranade's contribution to Indian Political Economy, the production and export of foodstuffs, the origin, development and influence of the caste system, the ancient village organization, economic holdings, the effects of the co-operative movement, the alleged relation between the Indian climate and the relative inefficiency of labour, the economics of Khaddar, the nature of land revenue, and external capital, to mention only a few of the subjects that have been dealt with in the present volume, is far from satisfactory. An obvious feature of the discussion of these subjects is a lack of critical and decisive faculty. Even that moderation and 'impartiality,' which is so obvious in the authors' remarks regarding the responsibility of government in a number of cases, is conspicuous by its absence when indigenous institutions like the caste system and the village organisation are on the anvil. There are several instances in the book of absence of proper correlation of the subject with economic theory and practically the whole of the last chapter dealing with Industries might be pointed out as a prominent case of this kind. The same chapter also will bear out the truthfulness of the criticism that the very commendable copiousness with which problems of agriculture and population have been treated has been achieved at the expense of other subjects equally important. The condemnation of the caste system on political grounds does come as a surprise from the pen of writers who set out to avoid the tendency to shift the discussion from the economic to the political, moral, or spiritual plane. Much of the stuff dealing with the biological aspect of the problem of population, many sections from among the six chapters purporting to deal with agriculture, e.g., a survey of the principal crops of India, a number of statistical tables, and practically the entire chapter on the state in relation to agriculture must bear the authors' own title-padding complements. Consistency of standpoint is also sacrificed in a number of places to the exigencies of immediate argument. The authors' judgment regarding the moral benefits of co-operation and the influence of climate on efficiency are instances in point. In addition to these defects of the subject matter, there are various other defects connected with the manner of presentation. The style is extraordinarily clumsy in a number of places. A number of phrases and constructions used throughout the book are of doubtful correctness. The following are a few instances :—Page 13, lines 10—14; p. 20, ll. 31—34; p. 92, ll. 13—17; p. 143, last line; p. 233, ll. 18—23; p. 308, last sentence in section 1. That there

are a very large number of misprints in the book is certainly no fault of the authors, but in a number of places these affect the continuity and even the meaning of the argument. These defects are noticed here with no desire to indulge in fault-finding, nor is it expected that anybody who goes through the present review will be stirred to take up the challenge that the authors have so sportingly thrown out at the end of their preface. It is intended only to demonstrate how very difficult it is to avoid faults against which we have warned ourselves and how very real are the limitations personal and objective under which all authors in the field of Indian Economics have to work.

Considerations of space prevent any exhaustive treatment even of all the more important subjects dealt with in the present volume. The arrangement of the subject matter in the book is rather unusual. The volume under review contains 13 chapters in all, dealing with the scope and definition of Indian Economics, physical and natural resources, population, social and religious institutions, the economic transition, agriculture—including irrigation, rural indebtedness, co-operation, land tenures and land revenue, and industries. The logical and utilitarian justification of such an arrangement which necessitates the discussion of a number of problems of distribution, public finance, and the standard of life before adequate reference to the topics connected with the production and exchange of commodities has been made may be doubted. There are, however, certain features of the discussion in the present volume which require a more than passing notice. To start with, it must be observed that the authors have no clear or real perception of the nature and justification of a special study of Indian Economics. As a matter of fact the foot-note on page 4 creates a very strong impression that had it not been for the nomenclature and specific mention adopted by University curricula the authors would not have cared either to adopt or to expound the title 'Indian Economics.' Whether Indian Economics is merely an essay in descriptive and objective study of economic problems, or whether a peculiarly Indian and an intensely national standpoint is the distinguishing mark of the studies designated by that title, is a question which the authors do not seem to have decided for themselves and are not naturally in a position to answer. They observe, no doubt, on page 2 that 'Indian Economics is a study of the present economic position of India from the Indian national point of view.' They seem, however almost to apologise for the use of the term (foot-note, p. 2) and certainly make no mention of the national standpoint in the following, the very first, sentence in the book,— 'Indian Economics, as generally understood, may briefly, simply and sufficiently be described as a study of the principal economic problems in India with an analysis of their probable causes and of any measures that have been or might be taken to deal with them. ' As a matter of fact a careful perusal of the sections dealing with the part that Ranade played in founding a separate body of thought known as Indian Economics, will reveal the fact that the authors have not correctly appreciated the contribution of the father of Indian Economics. Having misunderstood the nature and scope of the subject with which they deal, their production is reduced to a mass of loose and unconnected economic data. Their

attempt to father the responsibility for their confusion on Ranade himself by accusing him of an overstatement, and of setting a wrong fashion is too transparent an 'error' to serve as cover. Anybody who reads the famous essay on Indian Political Economy should have no misgivings regarding the views of Ranade on this subject. Ranade's speech constitutes a well reasoned attack on the economic policy of the Government of India which was notoriously fickle and perverse, taking resort alternately behind *laissez faire* and relativity as suited their immediate political and economic convenience. Against writers like Adam Smith himself, or Mill, Cairnes, Bagehot, Sidgwick, and Leslie, Ranade had comparatively little to say, for these writers accepted in the main the historicity and relativity of economic doctrines and stressed with varying degrees of emphasis the necessity of objective observation before practical policies regarding economic subjects could be framed. To this readiness expressed by leading British economists to accept necessary modifications in respect of individual liberty and state action, Ranade added the peculiar teaching of the historical school which consisted in viewing the social life of a people at any given time as a stage in its historical evolution and in looking upon communal well-being rather than individual improvement as the centre of economic policy. Regarding the hypothetical correctness of Ricardian economics Ranade had no doubts. He only objected to its being used as an infallible guide for practical policy. When the land of Ricardo himself and the whole of the civilised world has discarded his lead and when active state interference, curtailment of individual liberty in the interest of social welfare, and insistence on improving the productivity of the nation—the cardinal points in Ranade's presentment of the case for Indian Economics—are being preached and followed in every independent and progressive country, for our authors to blame Ranade for an error and an overstatement and to aver, 'We believe that the time has arrived when more is to be gained by stressing the points of similarity between Indian and European economic evolution than by harping ceaselessly and unprofitably on the points of difference' is rather touching. If to-day there appears to be less dissimilarity between the practical policies followed in Western countries and those desirable here, the reason is to be sought not in any error on Ranade's part but in the changed and changing conditions in the West. It is the essence of Indian Economic creed that those who follow it do not tie themselves to the apronstrings of one or the other school of economists. Their aim is to promote the proportionate and intensive social and economic progress of India by all means that may lie in the power of the state and the individual citizen. All theories of economics and all social policies whether in the East or in the West will be studied by them and the Indian economic situation will be examined in their light with a view to appraise economic policies as suitable or otherwise to promote the aim of national economic progress. So long as the nation continues to be the unit and centre of economic progress and the need for constructive and discriminating state action does not vanish Ranade's clarion call will continue to guide and inspire Indian economists in their wholehearted efforts to serve their country by serving their science.

The proper limits of a review require us to confine ourselves only to the most glaring features of the book. The treatment of the problems of population, caste system, export of foodstuffs, co-operative movement, and land revenue is very disappointing. We may notice in passing as a sample the author's discussion of the question of state *versus* private ownership of land in India and its fiscal counterpart the controversy regarding the nature of land revenue. In this connection, the authors find it convenient to conclude straightaway that both these controversies are futile and practically unimportant. Of course, ordinary writers on the subject will say that the constitutional position regarding the legislative control of revenue settlements and the fiscal question regarding the pitch of assessment and its proportion to the income of the cultivator are largely connected with the issue of both the controversies. Not so our authors. Their view in the matter is to be found in the following quotations: 'The state cannot afford to stand merely on legal rights; it must be prepared to be judged by moral standards, and in fairness to Government in this country it must be admitted that it has rarely sought to dispose of complaints about excessive assessment merely by taking shelter behind the theory of State Landlordism. It has generally tried to argue, whether successfully or not, that the land revenue is not really as burdensome as alleged by its critics. Even supposing that the state is the landlord, we must expect it to behave at least like an enlightened landlord, and if it does this, it would in its own ultimate interest, to regulate the land revenue in such a manner as not to trench upon the legitimate profits of the cultivator and reduce his incentive to work or lower his efficiency . . . The policy of a moderate levy receives further support from the consideration that the State has no interests separate from those of the people. The state serves itself best by serving the people because the state is the people.'

Comment is needless. There are various other passages in the book which are of a piece with the one just quoted. We have no desire to pronounce an opinion on the book as a college or university text as we have tried to examine the book as a contribution to Indian economic thought. We may congratulate the authors on the amount of industry that they have obviously thrown in to the production of the book. Particularly the relatively copious attention devoted to the problems of agriculture constitutes a step in the right direction. But when we come across a writer on Indian Economics who asks us to give up the fashion set by Ranade and who tries to make light of a matter like the land revenue controversy by assuring us that the state has no interests separate from those of the people and that the state is the people . . . Well, we can understand what he says; but that is not Indian Economics.

D. G. KARVE.

[There had been much "Similarity between Indian and European economic evolution" long before Ranade wrote. There will probably be more in future. Both need stressing as well as the differences. Modern states also consider themselves competent to take or leave any proportion of the surplus produce of land

they may decide to be best, quite apart from the legal and historical question as to its theoretical ownership. Ed.]

---

REPORT OF THE CONTROLLER OF THE CURRENCY FOR THE YEAR 1927-28. Government of India Central Publication Branch. 1928. Pp. 60+ii+iv.

This annual volume is as welcome as its predecessors, maintaining as it does the high tradition set up in the 1920-21 report. The appendix giving details about the financing of staple crops is a new feature subsequently introduced.

So much controversy was raised round the question whether there had been economic adjustment at the eighteen pence level of the rupee, that the first year after placing this exchange ratio on the statute book was naturally of great significance. The abandonment of the Reserve Bank Bill was another notable financial event. The result was that the author of the Report had himself to control currency and credit operations as in previous years. The weakness of the exchange rate was sought to be arrested by contraction to such an extent that the cash balance with the Imperial Bank was much lower than in previous years. The rupee loan also proved a failure. The ways and means position was thus rendered doubly difficult. It must however be said that Mr. Denning, and in his absence, Mr. Taylor, managed an admittedly difficult situation with ability, and the money rates did not show extreme contortions.

The year was marked with the following features :—

(1) inauguration of the purchase of sterling by open tender. Sir Basil Blackett had replaced the sale of Council Bills in London by sterling purchases in India, but there was considerable criticism of the method of purchase, especially as different rates were accepted at different centres.

(2) introduction of measures penalising the cutting of currency notes. Since July 1, 1927, no claims for half or mismatched notes of the denominations of Rs. 5 and Rs. 10 have been admitted. For notes of higher denomination, only half the value has been paid, the payment of the balance having been postponed for five years. But it is too early to say whether this has achieved its object of restricting the remittance business to banks.

(3) re-introduction of treasury bills. This is a sore point with commercial banks, whose deposits are affected by this Government intervention in the market. But unless banks co-operate in keeping the ways and means position of Government easy and free from anxiety, treasury bills will have to be issued.

The Report is an able record of important achievements in a trying period.

H. S.

---

BIHAR AND ORISSA IN 1925-26 by B. Abdy Collins, C.I.E., I.C.S. Government Printing Press, Patna. Price Re. 1.

This report though a bit old is yet interesting. Generally the progress of any province affords a useful perusal to both the inhabitants of the province as well as outsiders. The former are naturally interested in the details of domestic affairs



and the latter in the broad policies and new experiments, and find food for thought in comparisons and contrasts.

The year under review in Bihar and Orissa was marked by freaks of weather of opposite kinds—shortage of rain at one time in one part of the country and floods at another time and in the other part. The shortage has naturally affected crops. The floods on the other hand were no less prejudicial to the economic condition of the people in the locality where they occurred. Actually the question of floods is a serious one in Orissa on account of silt deposits and the narrowing of the mouths of the rivers.

All the same the finances of the Province were in a flourishing condition. The actual opening balance of the year proved higher than the estimate and so was the closing balance is estimated to be above the budget figure. The excise department succeeded in increasing the revenue along with a continuous decrease in consumption and actually the provincial balances felt swollen with continued surpluses of the excise department, but this condition of affairs cannot continue indefinitely and caution in sanctioning new recurring expenditure has been rightly exercised. The Famine Insurance Fund is prosperous and the province may justly be called 'solvent.'

One result of sound finances has been that money has been found for development schemes in greater amounts. Education is now the chief spending department and the medical and public health departments have received good increases. Agriculture and industries are in no way neglected." An expansion of the co-operative department has taken place. Irrigation and forests had their due share. The complaint that the nation-building departments are being starved for the maintenance of the essential services is not tenable, at least, as far as the province of Bihar and Orissa is concerned.

It will not be out of place to mention that an interesting experiment has been made by establishing in the Gaya central jail a class for the compulsory education of all Hindi-speaking prisoners of 25 years and under, serving sentences of over 2 years. The prisoners are taught tailoring, weaving, and other practical subjects, besides reading, writing, and arithmetic.

The report is illustrated with graphs and the one opposite page 35 is very interesting. It shows how within 5 years expenditure on transferred subjects has increased in a greater proportion than that on reserved subjects. There are some photographs in the body of the report which lend an increased interest.

KESARI SINGH.

---

THE COMMISSION AND AFTER by a Liberal. Published by D. B. Taraporevala Sons & Co. 1928. Price Rs. 3.

The writer has very carefully examined the case for a purely Parliamentary and an exclusively British Commission as put forward by British spokesmen. He has similarly analysed the case for the boycott of the Simon Commission as stated by the leaders of political opinion in India. At this time it is not necessary to

give reasons for and against the Boycott: It is enough to say that they have been very well stated and recorded, for later-day reference, in the book under review. Indeed the analytical and descriptive portion of the book—it is really a pamphlet—is excellent; it is the constructive part that is not very helpful. The writer makes the suggestion of creating a parallel Indian Parliamentary Commission of seven members of the Central Legislature by Royal warrant. Such a suggestion was made by *The Pioneer* at the time but was found unacceptable even by Liberal politicians in India. As a matter of fact such a parallel Commission would have differed very little from the Central Committee except in name and the warrant. It could not have satisfied Indian public opinion any more than the constitution of the Central Committee has done. The only way of undoing the blunder committed by the British Cabinet was to recast the whole constitution of the Commission and to include an equal number of representative Indians in it. But such a course a Government which has made a fetish of *Prestige* could never take. The only useful purpose that a parallel Commission could have served—that of producing a constitution, “with which America and other civilized parts of the world could be faced” to use the words of the Chairman of the Indian Central Committee—has already been accomplished by the Nehru Committee, a Committee which is admittedly much more representative of India than the present Central Committee is or any parallel Commission appointed by the crown could be!

The writer is unable to suggest any solution of his own of the very delicate and difficult question of the Indian States and their future relationship with British India; and he repeats the suggestion of the Montford Report for the creation of an Indian Privy Council, which he believes “will give ample scope to the talents of a few of the most gifted among” the Indian Princes. I am afraid, such a suggestion is wholly unacceptable to the Rulers of Indian States to-day. They wish to safeguard their treaty rights and to create a common machinery to deal with the matters that affect both British India and the Indian States.

The writer is perfectly right in saying that there can be no question of going back on the policy enunciated in August, 1917, and that the only feasible course is the establishment of some Western form of Parliamentary democracy. But as to the next instalment he gives merely the liberal view of *yesterday*, that is the view embodied in the minority report of the Muddiman Committee or that put forward by Dr. Paranjpye as President of the National Liberal Federation four years ago. Even the Liberal Federation has changed in the meantime. It has gone ahead and is now demanding full Dominion Status.

It is the misfortune of writers, like the one whose work is being reviewed here, that their suggestions become out of date by the time they are put before the public and are discussed and reviewed. All the same the book deserves to be preserved and is likely to prove useful to future student of Indian constitutional history.

GURMUKH N SINGH,

## ADMINISTRATION REPORT OF THE IDAR STATE FOR THE YEAR 1926-27

The states in India are units in various stages of progress and their Administration Reports afford food for thought to those who are interested in Indian problems. Moreover they enable us to make comparison not only with each other but with adjoining British districts also. All reports follow a certain standard skeleton and are uniform in the kind of material with which they deal though varying in detail. Thus those who are interested in the collection of statistics would also find matter in them. The State of Idar is situated in the north-east of Gujrat, has an area of 1,669 square miles and a population of 202,811 souls which gives a density of 122 persons per square mile. Its average revenue and expenditure worked out for the last five-and-a-half years are Rs. 16,47,379 and Rs. 13,01,314 respectively.

The country is interspersed with hills and rivers, the soil is rich and fertile except in the hilly tracts. The average rainfall is about 35 inches and the principal products are wheat, rapeseed, methi, maize, pulses, oilseeds, rice, sugarcane and cotton. Mahua and mango trees are also found in some abundance. The State has good sand-stone, lime-stone and white clay, also mines of mica, asbestos and steallite. Its forests produce teak wood, bamboos, babul and khakhra. The State is connected with a railway line from Ahmedabad.

It is divided into 5 mahals for administrative purposes. Both cash assessment and bhag batai systems are in force and efforts are being made to bring in outside cultivators. Land revenue demand of the State amounted to Rs. 7,13,864.

Improved quality of wheat and better implements of agriculture are being introduced, but the financial position of the State is all but desirable. The salaries of the staff were in arrears for some months which with the outstanding dues to be paid to creditors and others amounted to Rs. 4,95,446. The State took a loan of Rs. 2 lacs and the strained position has been relaxed a bit. But it remains to be seen how the position can be improved in future. A feature of economic interest is that the State has prepared statistics on agricultural stock.

KESARI SINGH.

---

AN ECONOMIC SURVEY OF GAGGAR BHANA, A VILLAGE IN THE AMRITSAR DISTRICT IN THE PUNJAB. Punjab Village Surveys, No. 1, published by the Board of Economic Enquiry, Punjab, 1928. Enquiry conducted by Messrs. S. Gian Singh, B.Sc. (Agri.) and C. M. King, C.S.I., C.I.E., I.C.S. Price Rs. 4.

It is a matter of common knowledge that of all provinces of British India, the Punjab has been leading the way in the matter of economic legislation as well as economic investigations—thanks to the altruistic and enduring interest taken in the work by small band of European workers in that province: the names of Calvert, Darling, and Myles are too well-known for their pioneering work to need any amplification here.

The book under review is the first of its kind in India. Evidently, quite a series of these will follow shortly. To one who has done some amount of rural investigation in Mysore and Hyderabad, it comes as a very pleasant surprise that the authorities of the Punjab Board of Economic Enquiry thought it necessary to employ qualified whole-timers, paid for their work, to conduct the investigations, and secondly to allow a period of 15 months for examining and reporting upon the economic conditions of a single village. It augurs very well that the Punjab Board does not believe in honorary service for this kind of really very taxing work. And if anything, the Board seems to have erred on the right side in allowing the investigator to take 15 months in order to ensure the enquiry being sufficiently intensive.

The special virtue of the publication is that the authors do not express their opinions but present matters of fact. This clearly shows that the whole enquiry is planned to be carried on on strictly academical lines. To probe into these publications, to interpret the facts presented, to decide upon the necessary action to be taken for bettering the rural economic conditions—these functions belong to men quite different from the investigators and even from the Board. This is as it should be. For, this is the only way to ensure avoidance of prejudices, or of hasty legislation.

This book is really of absorbing interest to people who know something of this kind of work. It must be remembered that this is the first publication of its kind in India, and it would not serve any purpose to make much of minor flaws here and there. Surely, in the later volumes of this series, improvements will be made. Still, the observations that follow on the book may prove of some use.

Does one questionnaire, however detailed and panoramic, suit every village that is taken up for intensive examination, even within one province? This is a point on which evidently, there is difference of opinion, but this much may be said. When we appoint a qualified and paid whole-timer for the work and allow him more than sufficient time, then is it not better to leave him with main heads of enquiry and to ask him to draw up his own detailed questionnaire, compiled specially for the village, as he progresses with his work? The advantage of this procedure would probably consist in enabling the investigator to develop his enquiry in proportions proper to the conditions of the village: some items which have no place in the village, he may drop off and some items he may find it necessary to go further into than contemplated by a general questionnaire like the one by which the investigation under review was conducted.

In chapter 1, there is this sentence: "The insanitary conditions necessitated the heavy birth rate, and the birth rate, owing to the risks run at each birth, causes a heavy death rate among women." How insanitary conditions necessitate a heavy birth rate should have been further explained; as it is, it is hard to follow the argument.

In the course of the several chapters, there are a good number of commonplace statements which hold true of practically every village in the whole of India, and which practically everybody knows. Such statements would not have

been there but for the compulsory questionnaire. Here is one such typical statement: at the end of chapter 6, it is written that "the people for the most part seem to be ignorant of the fact that takavi loans are available and that the terms are far easier than those obtainable from the village moneylenders."

On page 84, the authors analyse the debt of the village under different items. To ascertain the debt of a village is not difficult, but to correctly apportion it as due to this or that cause is probably impossible for the simple reason that the debtor in most cases does not remember the actual uses for which he utilised the loan. The analysis given here is either approximate or must have cost a very great deal of time and patience.

Professor Myles deserves the grateful thanks of all University men in India for having shown, in putting forth this book, how economic enquiries in rural tracts can be actually started and run.

S. KESAVA IYENGAR.

HAZRAT AMIR KHUSRAU OF DELHI by Muhammad Habib. D. B. Taraporevala & Co., Bombay. Pp. 110. Rs. 2-8.

This little book more than fulfils the promise of Professor Habib's earlier historical work "Sultan Mahmud of Ghazni." It is marked by the same keen insight, freedom from bias and mastery of language and makes a stronger appeal to the general reader.

The subject of the book is one of the most eminent figures in Medieval India and occupies a high place in the history of Indian Culture. The volume before us is particularly welcome as it throws light on the social relations between the two major communities of India in these early days of their contact in which the average man pictures them as perpetually flying at each other's throats. Much of this vague misunderstanding is bound to be dispelled by a perusal of this book.

The biography of Khusrāu which purports to be the author's main theme, but into the details of which he has not chosen to enter, occupies 43 pages and includes the life of his spiritual preceptor, Shaikh Nizam-uddin Aulia of Delhi. The pages devoted to the life of this saint have an interest and value of their own.

The rest of the book is devoted to a critical examination of Khusrāu's prose and poetical works. Their salient features have been ably summarized and their value critically assessed both by modern and orthodox standards. While praising the poet profusely for the beauty of his ghazal—the form of poetry in which he was at his best—the author does not spare him for the faults of his ventures in other fields. Khusrāu's laboured *Masnavi* and ponderous prose, as also his attempt to produce volumes of literature at the bidding of patrons and in the hope of rewards, without due regard to quality, are condemned in no uncertain language.

We get a glimpse of the author's own poetic talent in his English rendering of a few of Khusrāu's ghazals on pages 92 to 94. Thus :

Thy flashing sword has laid all waste  
The troubled garden of my heart;  
Yet what a glory to this wreck  
The rays of Thy great throne impart!

"The two vain empty worlds," they say  
"Is price that all must pay for Thee."  
Raise up the value, raise the cost,  
This is too cheap as all can see.

The character of Khusrāu is the theme that runs through the book and gives unity to it. His skill as a man of the world in winning and retaining the favour of patrons so widely different in character, taste, and sympathies as the successive rulers of Delhi from Balban to Ghiasuddin Tughlak furnishes the clue to his character. Success was his principal aim in life and success he had in abundance.

The footnotes in the book besides furnishing a guide to the extant works of Khusrāu are a valuable bibliography for the study of this period of Indian history. The refutation in one of these footnotes of the story implicating Shaikh Nizamuddin Aulia in the events that ended with the death of Ghiasuddin Tughlak lifts a cloud that has hung over the memory of that illustrious saint.

PARMANAND.

---

BUDGET NOTE FOR THE YEAR 1336 FASLI (1928-1929). Prepared for H.E.H. the Nizam's Government by A. Hydari Hydar Nawaz Jung, Finance Member.

The note gives a very good idea of the condition in which the finances of the Hyderabad State are. It deals with the receipt and expenditure of the third triennium since the scheme of Departmentalisation of the Finances was sanctioned. Before proceeding with the figures for the triennium it deals with Actuals for the year 1336 Fasli (which discloses a net surplus of over 78 lakhs) and the Revised estimates for the year 1337 Fasli (which shows a net surplus of 135½ lakhs).

The scheme of Departmentalization of the Finances was originally sanctioned as an experimental measure for a period of 3 years but its successful working has led to its being adopted for the future budgets of the State. The claims of the Finance Member deserve repetition in his own words which are as follows :

"If, as has often been stated, the finances of a State are the best expression of the efficiency of its administration and the well-being of its people, Hyderabad may well hope that at the end of the third contract, . . . it will have attained a high level with regard to the objects for which a state can justify its existence. An

## REVIEWS OF BOOKS

extensive agricultural programme will have initiated measures for increasing the produce of the ryot . . . and his cottage industries . . . will have been organised in a manner that will bring still further addition to his resources; a net-work of co-operative credit societies and banks will be providing him with cheap capital and agents for the purchase of his raw material and for the sale of his produce on the most profitable terms. At the same time the establishment of the district veterinary dispensaries and the stud depot will be ensuring the careful treatment and the improvement of his stock. A growing band of well-trained civil servants working under honest and experienced heads will enable him to retain and enjoy the fruits of his labour in peace and security. The reorganisation of the district medical department and the equipment of the Osmania general hospital with an expert and sufficient medical and nursing staff and up-to-date appliances will have helped materially towards the relief of human suffering. The expansion of elementary education will have been furthered by the establishment of a network of schools under trained teachers throughout the dominions, while residential colleges not only of art and science but also of law, agriculture, engineering and medicine, will have been established in buildings worthy of the position of the Osmania University as being the first successful attempt to impart instruction through a medium which will make for assimilation of knowledge—and not mere memorising. The amenities of electricity, and the telephone will have been extended, and the necessity of a pure drinking water supply met, in many districts, large areas will have been protected against famine by well administered irrigation works, and the carrying out of a well thought out railway and road programme will be opening up the country, thereby bringing in all the advantages which follow better communications. Revenue, judicial and other officers will be housed in buildings which will no longer be a source of shame, discomfort and ill-health to those working in them, whilst a central secretariat will facilitate interchange of work and minimise routine."

The Finance Member further says as follows

' I am not unduly optimistic if I anticipate that the contract which will be next framed will have a revenue of over 8 and nearing 9 crores to be spent on the further realisation of these objects, which it will be possible to supplement, as has been done in the past, by liberal grants from the surpluses that accrue in the next three years. The capital expenditure which has been financed without raising any loan during the last two contracts has amounted to 5½ crores and if in order to finance further capital expenditure the cash balance is at any time found insufficient, it will be open either to convert into this form of local investment, a small portion of the foreign securities in the reserves which now on this date stand at nearly 16 crores (excluding over 2 crores in the paper currency reserve) or to go with a light heart to the money market where the credit of H.E.H.'s Government commands for its scrip a premium of 20 per cent."

Our sincere good wishes for the Finance Member in the realisation of his schemes.

ANAND SINGH.







